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Fiat gets to grips with Alfa, Page 30

World news | Business summary

Concern in Spain as strikes spread

Spain's ruling Socialists said they were worried about growing industrial strife and claimed that unions had lost control over their members and opposition parties failed to channel dissent.

Meanwhile, tractors invaded Madrid in a farmers' protest; a doctors' strike spread to 80 per cent of the state hospitals; shipyard workers clashed with police in Cadiz; stoppages by Bilbao steelworkers closed several plants; and the Communist-led Workers Commissions, Spain's second largest union, was meeting to decide whether to call a general strike next month.

Socialist Party spokesman Txiki Benegas said in Madrid: "Dialogue has broken down. Trade unions have been overwhelmed by their members and opposition parties are not serving the social interests they represent."

Andreotti challenge

Mr Giulio Andreotti, the veteran Christian Democrat leader charged with forming a new Italian Government, challenged the Socialist Party either to agree to compromises or take responsibility for early general elections. Page 2

Space weapons plea

The Soviet Union called for the establishment of an international inspectorate to prevent deployment of weapons in outer space. Page 2

Hong Kong politics

China and Britain began talks on Hong Kong's political transition ahead of the transfer of power to Peking in 1997. Macao handover, Page 3

Killing postponed

Lebanese captors of Jean-Louis Normandin, a French television technician kidnapped in Beirut more than a year ago, said they had postponed his "death sentence" for a week in response to mercy pleas from Moslem religious leaders and what they described as secret promises by France.

Reagan TV date

President Reagan, ending four months of semi-isolation from the press, will hold a televised news conference tomorrow, the White House said. Page 4

Anti-pollution drive

The Swiss parliament called for tougher government action to combat road pollution, but the lower house rejected calls for far-reaching measures such as fuel rationing and car-free days.

S. Africa killings

Seven black youths aged from 15 to 17 were stabbed and shot to death in the South African township of KwaMashu near Durban. The killings coinicided with a school boycott and clashes between black radicals and supporters of the conservative Zulu Inkatha movement.

European 'superchip'

West Germany and the Netherlands have developed Europe's first computer "superchip" prototype and hope to beat industry leaders in Japan and the US into the market, West Germany's Technology Minister said.

Colombia clash

Eleven guerrillas and eight policemen were killed when leftist rebels raided two remote villages in north-east Colombia.

Boy, 2, enthroned

The world's youngest Buddhist lama, a two-year-old Spaniard, was enthroned in Bharmsala, India and venerated as the reincarnation of a dead Tibetan lama.

Fairchild seeks buyout finance

FAIRCHILD semiconductor of the US says it will move ahead quickly with alternative financing plans following the cancellation of proposals for Fujitsu to acquire 80 per cent of the company from Schlumberger, Fairchild's parent company. Japanese reaction, Page 4; Details, Page 38

LONDON: The budget speech from the Chancellor of the Exchequer was greeted by a confident surge in both government bond and share price. The FT-SE 100 index rose 14.5 to a new peak of 2,006.3 and the FT Ordinary index added 10.3 to 1,586.9. Gilts jumped by around 1½ points during the speech to end with net gains of 2 points as sterling moved higher. Details, Page 46

WALL STREET: The Dow Jones industrial average closed 36.36 at 2,284.80. Page 50

TOKYO: The Nikkei average surged to a new peak with a 99.38 gain to 21,514.73 on volume of 1.94bn shares. Page 50

STERLING closed in New York at $1.6040. It rose in London to $1.5990 ($1.5840); to DM 2.94 (DM 2.91); to Y243.0 (Y240.25); to SFr 2.46 (SFr 2.4350); and to FFr 9.7850 (FFr 9.69). The pound's exchange rate index closed at 72.1 (71.4). Page 43

DOLLAR closed in London DM 1.8340; SFr 1.5335; FFr 6.1025; and Y151.80. It rose in London to DM 1.8395 (DM 1.8375); to Y151.95 (Y151.80); to SFr 1.5385 (SFr 1.5375); to FFr 6.12 (FFr 6.1175). On Bank of England's figures the dollar's exchange rate index closed at 103.2 (103.4). Page 43

GOLD fell to $405.00 ($405.75) on the London bullion market. It rose in Zurich to $406.50 ($405.75). Page 42

ADVANCED Micro Devices, battered US semiconductor manufacturer which reported losses of $130m over the past 18 months, plans to build a micro-computer which it claims will outperform any other available. Page 34

AT&T of the US and Dutch partner Philips may have to modify the financial structure of the joint company they are forming with SAT, French telecommunications group, to remain in the international bidding for CGCT, France's second-largest public telephone exchange manufacturer. Page 31

TAFT BROADCASTING, Cincinnati-based television operator prey to warring shareholder groups, received an improved $1.38bn offer from Mr Dudley Taft, former president and son of the company's founder. Page 31

WORLD COCOA producers and consumers began studying a compromise formula for a buffer stock in the cocoa market to stabilise prices and keep supply in line with demand.

AUSTRALIA: Kerry Packer's Consolidated Press Holdings and Larry Adler's FAI Insurance jointly launched an investment bank with initial capital of A$50m (US$34m). Page 30

CARL ICAHN, chairman of Trans World Airlines and one of the most feared corporate raiders in the US, is under investigation by the Securities and Exchange Commission for possible violations of securities laws. Page 31

EEC recorded its first visible trade surplus last year, estimated at Ecu 5bn ($5.63bn) because of falls in oil prices and the cost of dollar-denominated imports. Page 4

MEXICAN Government sold minority stakes in a third state-owned bank despite criticism that last month's sale of the country's two major commercial banks was at least partly an exercise in political patronage. Page 34

BANCA della Svizzera Italiana, Lugano-based Swiss bank, plans to raise about SFr 50m ($32.5m) in share capital through a 1-for-12 rights issue. Page 34

CHINA overtook West Germany as the world's third-largest shipbuilder behind Japan and South Korea. Page 4

Yugoslav Government defies wage law protests

BY ALEKSANDAR LEBL IN BELGRADE, PATRICK BLUM IN ZAGREB AND DAVID BUCHAN IN LONDON

THE embattled Yugoslav Government said yesterday it would stand firm on its new wage controls that have caused widespread protest strikes, amid signs of a looming clash with international creditors on debt rescheduling.

In the most concentrated outburst of strikes in recent years, some 70 work stoppages, involving at least 11,000 workers, had occurred in the past week, Dr Janko Obocki, the federal Minister of Labour told a press conference yesterday. Roughly half these strikes took place in the republic of Croatia.

Although much of the protest has been concentrated in Croatia and around Zagreb, its capital, there are reports of growing industrial action throughout Yugoslavia, including the highly industrialised republic of Slovenia.

The immediate cause of the labour unrest is the new law of March 1 which virtually freezes wages at their average level in the last quarter of 1986. It requires that amounts paid this year in excess of this level should be returned to company accounts within the first half of 1987.

Mr Svetozar Rikanovic, the federal Finance Minister, said the Government had no intention of rescinding the new law. But many observers believe that some modification, at least so as not to penalise those workers who voted themselves (in the Yugoslav system of self-management) modest pay increases last year, must be made if the Government is to avoid a major political confrontation.

The protest movement is "unique," said Mr Branko Gretic, executive secretary of the Croatia section of the Yugoslav trade union confederation. "In the past 15 years not a single measure has caused as much turbulence as this law. We've never experienced anything like it in this country."

His union wants the law to be changed if it is to be kept at all. "It (the law) is unjust and economically inefficient," he said.

Short, localised strikes are not uncommon in Yugoslavia, unlike the rest of Eastern Europe. The difference with the latest unrest is the concentration of strikes, 70 in a week compared to a couple of hundred stoppages last year.

The aim of the Government pay freeze is to try and curb inflation which rose in the first two months of 1987 at an annual pace of 129 per cent compared to 92 per cent last year. Mr Branko Mikulic, the Prime Minister, has claimed the law is needed to deal with the fact that last year real wages rose 10 per cent (above the soaring inflation reate) while productivity increased only 0.6 per cent.

The domestic economic crisis comes at a critical "break point" in Yugoslavia's debt rescheduling agreements with western governments and banks.

The banks had agreed to continue their rescheduling of some $3.5bn debt falling due in 1985-88 beyond the end of this month, only if official government creditors then seemed likely to continue their similar 1986-88 rescheduling arrangements.

Yugoslavia's official creditors, however, have made continuation of their debt repayment relief accords dependent on the country' getting a favourable progress report from the International Monetary Fund (IMF), which last year undertook to provide "enhanced monitoring" of the Yugoslav economy for the benefit of outside creditors. The latest IMF report on Yugoslavia, discussed by the Fund board last week, was distinctly unfavourable.

The official creditors are due to discuss future rescheduling arrangements with the Yugoslavs in Paris on March 30. Their current firm commitment to give Yugoslavia debt relief extends in fact until mid-May. But already some Western governments are suggesting that Yugoslavia should return to fully fledged IMF supervision under a standby credit programme.

The Fund was greatly relieved last year to loosen its commitment to Yugoslavia after a solid 6½ years of standby arrangements

Mr Ilkka Suominen

Right is poised to rule in Finland

By Olli Virtanen in Helsinki

FINLAND'S conservative Kokoomus Party looks certain to join in a coalition government for the first time in 22 years after gaining nine seats in Monday's general election.

Kokoomus, which won 53 seats against the Social Democrats 56, seems likely to push for lower taxes in an attempt to boost the economy, and make government more sensitive to business interests.

It is unlikely there will be any change in foreign policy which has sought to balance the realities of Finland's common border with the Soviet Union with its Western orientation.

Kokoomus will now be flanked by the Centre Party, the second major non-socialist party, which gained two seats, bringing its total to 40. The two seem likely to form Finland's first purely non-socialist government for decades following a total swing of eight seats from left to right. The Socialists hold 76 seats, while the non-socialists have 124.

The Rural Party, which traditionally gets its support from poor, agrarian "protest voters" suffered a dramatic loss of nine seats and was relegated to eight MPs after having served four years in government. Other disappointed protest parties include the Greens,

Kokoomus and its chairman, Mr Ilkka Suominen, are literally the lucky winners. The party gained only 1 percentage point in votes but still took nine more seats whereas the Social Democrat Party's support dropped by 2.2 per cent, but it lost only one seat under the proportional representation system.

The SDP and the Rural Party explained their losses by "governing fatigue". The more objective explanation is that the country clearly wanted a change.

Key politicians who did not make it to Parliament include the Communist Party (majority) chairman Mr Arvo Aalto who dropped out, and the Stalinist leader Ms Kristiina Halkola, who failed to be elected.

Budget paves way for Thatcher to call early election

BY PHILIP STEPHENS AND PETER RIDDELL IN LONDON

THE BRITISH Government delivered a largely predicted budget yesterday which included tax cuts and a sizeable reduction its public borrowing, target, giving Prime Minister Margaret Thatcher room for manoeuvre to call an early general election. There is increasing speculation on a June poll.

Mr Nigel Lawson, the Chancellor of the Exchequer, said after presenting the set-piece economic package to parliament that he remained "relaxed" about the date of the general election, which has to be called by June 1988. He added that, while he saw no compulsion for an early election, if Mrs Thatcher decided to go to the country early, "it will bring to an end the ridiculous pre-election fever and there is something to be said for that."

However, one Cabinet minister commented that the balance was still 50/50 between June and the early autumn, with the Prime Minister still to be persuaded on the former date.

Mr Lawson's speech of less than an hour was itself something of an anti-climax both because of a lacklustre and faltering performance by the Chancellor and because the measures were largely as expected.

Mr Lawson's measures, which included a 2 percentage point cut in the basic rate of income tax to 27 pence in the pound, a £3bn ($4.74bn) reduction in the target for the Government's public borrowing in the coming fiscal year and a freeze on excise duties drew a predictable welcome from Conservative Members of Parliament.

Budget details, Pages 16–28; Market reaction, Page 50

Mr Neil Kinnock, leader of the opposition Labour Party, which has been trailing in the opinion polls, and Mr David Steel, the Liberal Party leader, both attacked the budget for being a missed opportunity and not tackling the real problems of unemployment and industrial growth.

British financial markets rose strongly in response to the budget, which was seen as paving the way for an immediate cut in base lending rates. As Mr Lawson was delivering his message to Parliament, interest rates on the domestic money market shifted sharply lower.

His cut in borrowing provided the markets with their biggest budget surprise. He had been widely expected to concentrate the funds he had available on cutting taxes ahead of an election, but, in the event, Mr Lawson's focus on reducing borrowing was regarded as prudent and confidence-building.

On the London Stock Exchange, the FT-SE 100 index surged ahead during the speech to register a 29.2-point gain at its best level but profit-taking reduced this to 14.5 for a finish of 2,006.3.

Mr Lawson, unveiled tax cuts worth a net £2.6bn combined with a £4bn target for the public sector borrowing requirement in 1987/88. He also announced measures to help small companies, to encourage personal pensions, to close tax loopholes and to promote profit-related pay.

Mr Lawson, predicting the seventh successive year of economic growth in 1987, told parliament he had provided a "budget built on success and a budget for success." He forecast that output would rise by 3 per cent this year, with even stronger growth in manufacturing and exports, and that inflation would rise only slightly.

He re-affirmed the Government's eventual aim of cutting the basic rate of tax to 25p, but said the priority this year had been to maintain a prudent stance on fiscal policy. The medium term financial strategy accompanying the budget shows scope for tax cuts of £3bn next year, and of £2bn in each of the following years.

Continued on Page 30

BUDGET SUMMARY

MEASURES

- Budget measures will cost just over £2.5bn ($4bn) on an indexed basis. Income tax changes, to take effect after May 17, will cost £2bn in 1987–88 after indexation.
- Corporation tax main rate will remain at 35 per cent. Small companies rate and advance corporation tax will fall from 29 to 27 per cent.
- Oil companies will get relief from petroleum revenue tax from new oil exploration in Britain.
- One half of an employee's profit-related pay will be tax free.
- Income tax basic rate will be cut 2 points to 27 per cent, worth more than £3 a week to a person on average earnings.

FORECASTS

- Output to rise by 3 per cent in 1987, with exports and investment up by more than this figure.
- Non-oil economy set to grow by 3½ per cent in 1987.
- Inflation to edge up, perhaps over 4½ per cent, before falling to 4 per cent by year-end.
- Current account likely to remain in deficit by about £2.5bn ($4bn) in spite of strong predicted growth in exports.
- Money supply target range set at 2 to 6 per cent for narrow money, M0.
- Public borrowing in 1986–87 at only £4bn, or 1 per cent of GDP, the second successive year of significant undershoot. PSBR target for 1987–88 at £4bn.

France, Germany close to military helicopter pact

BY DAVID HOUSEGO IN PARIS

FRANCE and West Germany are close to agreement over the joint production of a new military helicopter which would mark a major breakthrough in Franco-German arms co-operation.

The agreement would come after three years of dispute over the issue and the failure of the two countries to agree to work together over the new European fighter aircraft and on a new generation tank.

The project also reflects a new French determination to cut weapons procurement costs through European collaboration, as shown in the recently announced arms tie-ups with Britain.

French officials confirmed yesterday that General Maurice Schmitt, the chief of staff of the French army, and Mr Jacques Chevalier, the head of arms procurement in the Ministry of Defence, visited West Germany on Monday to settle the final details of the project, which has been a source of dispute between the two armed forces for three years.

Mr André Giraud, the Minister of Defence, is also due to visit Bonn shortly for talks with Mr Manfred Wörner, the West German Defence Minister, aimed at concluding an agreement and furthering other areas of co-operation.

The French and West German forces would each order about 200 of the helicopters which would be built by Aerospatiale and Messerschmitt Bölkow Blohm and delivered in the 1990's.

Differences between the armed forces have focused on the night-vision sighting device (with the Germans preferring equipment developed by Martin Marietta of the US) and over the placing of the pilot and the gunner.

Behind these differences have lain a fundamental dispute over the role of the helicopter. The French wanted a ground support version, while the Germans wanted both an anti-tank helicopter and a ground support version.

The two armed forces appear to have now agreed on a single version of the helicopter with a European developed night flying and weapons sighting system mounted on the roof of the helicopter.

The project was originally conceived in 1984 and was revived by Mr Giraud in July after seeming close to collapse. In talks with Mr Wörner, the French then agreed to give a six month deadline to the armed forces and the two companies to see whether a compromise was possible.

The agreement goes some way to offsetting a string of disputes with West Germany over arms collaboration including the decision by West Germany to join the European fighter aircraft consortium rather than Dassault's project for a new generation fighter aircraft.

David Marsh in Bonn adds: The narrowing of the two sides' positions over the helicopter comes at an important time for the Bonn Government. Mr Helmut Kohl, the West German Chancellor, is due to visit President François Mitterrand in Paris at the end of next week to discuss more sweeping security collaboration between the two countries.

Japanese growth at 12-year low

BY OUR FOREIGN STAFF

THE JAPANESE economy expanded last year by its smallest amount since 1974, almost exclusively due to the adverse impact of the higher yen.

Gross national product in real terms grew by only 2.5 per cent in 1986, well below the 4.7 per cent of the previous year. In the final quarter it advanced by a meagre 0.8 per cent, attributable to the lower than usual winter bonus payments made by manufacturers to their workforces.

The poor fourth-quarter performance, allied to indifferent partial data for the early months of this year, almost certainly means that the growth target of 3 per cent for the 1986–87 fiscal year, which ends this month, will not be reached.

At last month's meeting of finance ministers of the leading industrialised countries in Paris, Japan committed itself to the pursuit of monetary and fiscal policies designed to stimulate domestic demand.

However, the Japanese Government and parliament have become totally consumed by a controversial tax reform package. Consideration of new measures to promote growth do not appear to be, at present, at the top of the policy agenda. The tax package itself, as now designed, would be broadly fiscally neutral.

The impact of the higher yen showed itself in various ways. When measured in yen, as opposed to dollars, the trade surplus in 1986 shrank by one third from the previous year to Y8,199bn ($53.58bn).

With income and profits declining, the private sector's capital investment also weakened, growing by only 6.4 per cent last year, barely half the 12 per cent advance of 1985.

The Government has been urging its citizens to spend more to offset the fall-off in export-led growth. However in 1986, private consumption rose by only a modest 2.6 per cent, a similar level to the preceding two years but insufficient to compensate for the relative sluggishness of exports.

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Labour leader Neil Kinnock: *demanding a different share-out of wealth*, Page 19

EUROPEAN NEWS

Andreotti in challenge to Socialists

BY JOHN WYLES IN ROME

MR GIULIO ANDREOTTI, the veteran Christian Democrat leader charged with forming an Italian Government, yesterday challenged the Socialist Party either to agree to major compromises or to take responsibility for an early general election.

In his attempt to renew the five-party coalition formerly headed by Socialist leader, Mr Bettino Craxi, Mr Andreotti yesterday sought Socialist support on the basis of a formula for avoiding the referendums on nuclear policy and judicial reform due in June.

Fearful of being outflanked by parties to their left, the Socialists have been the only governing party insisting that the referendums should go ahead. The tiny Social Democratic Party has been shifting towards this position over the past few days, but the Christian Democrats, the Republicans and the Liberals are all firm in the view that an Andreotti-led government would risk being torn apart by party conflict during the referendum campaign.

Mr Andreotti's 11-page letter sent to the party secretaries yesterday is a key move in the search for tactical advantage in the political game launched by Mr Craxi's resignation a fortnight ago.

If the Socialist executive rejects Mr Andreotti's proposed approach, then elections due in June 1988 would almost certainly have to be brought forward. Acceptance, however, would appear to be a sign of weakness from a party which has already appeared to climb down by agreeing to contemplate Mr Andreotti as Prime Minister, having originally called for other Christian Democrat nominees.

The probability is that Mr Craxi will come back with counter-proposals aimed either at prolonging the goverment "crisis" until after his party's congress in two weeks' time or at provoking a break-down in negotiations beforehand and transforming the congress into a pre-election rally.

Another option would be to take up a Social Democrat proposal that a minority Christian Democrat-Liberal-Republican government be sustained until the referendums are out of the way. This is unattractive to the Christian Democrats, however, because they could well be on the losing side of the vote on both referendums.

An Italian referendum can only seek to repeal existing laws and it can be avoided only if Parliament does so beforehand. Mr Andreotti's letter, in effect, proposes handing victory to the sponsors of the referendums through a commitment to change the controversial laws in the context of broader judicial and energy policy reforms.

It does contemplate the possibility that the judicial reforms might not be achieved in time, in which case Mr Andreotti insists that the parties must all agree to campaign on the same position. But he is seeking to rule out any possibility of a referendum on the highly contentious nuclear issue. As compensation he offers the Socialists a vague undertaking to discuss their demands for a directly-elected President.

Soviet call for check on space launches

By William Dullforce in Geneva

THE Soviet Union yesterday called for an international inspectorate to prevent deployment of weapons in outer space. This proposal was aimed at moving debate on an arms race in space "off the dead centre" in which it now languished, Mr Yuri Nazarkin, the chief Soviet representative, told the UN conference on disarmament.

Inspectors would monitor the launch of any space object and would have a right of access to all objects designed to be launched and stationed in outer space.

By submitting such a far-reaching proposal the Soviet Union was demonstrating that verification of any agreement to prevent an arms race in space was no problem for it, he added.

The US has emphasised that watertight procedures to prevent cheating must be incorporated in any nuclear disarmament agreement.

On its side the Soviet Union has insisted in the separate bilateral talks on nuclear arms control with the US in Geneva that President Ronald Reagan's Strategic Defence Initiative (SDI) must be halted before a comprehensive disarmament accord can be concluded. SDI aims at deploying anti-missile weapons in space.

Moscow's move to activate discussion in the 40-nation disarmament conference, which is mandated by the UN General Assembly to discuss space weapons, was seen by Western diplomats as an effort to step up the pressure against the SDI programme.

At the same time Mr Nazarkin reiterated earlier suggestions that the UN conference should try to elaborate an international agreement to ensure the immunity of artificial satellites.

Kohl gives keynote speech under Soviet scrutiny

BY DAVID MARSH IN BONN

THE Soviet Union is making clear that the tone of a parliamentary speech today by Chancellor Helmut Kohl will be crucial in determining whether Bonn's relations with Moscow have emerged from their freeze of the past few months.

Mr Kohl, who will be delivering to the Bundestag a keynote statement setting out his government's policies for the next four year legislative period, will also be under pressure to counter strong criticism of his leadership style among his own supporters.

He was re-elected Chancellor by the Bundestag last week by an unexpectedly low majority of four votes. This mainly reflected abstentions among disgruntled deputies from his Christian Democratic Union (CDU) party.

The Chancellor today is expected to stress the importance of improving relations with the Soviet Union as part of general East-West peace efforts. This follows the deep diplomatic rift last autumn after Mr Kohl compared Mr Mikhail Gorbachev with Nazi propaganda chief Josef Goebbels.

Although Bonn officials are cautioning against expectations of any "spectacular" joint projects between the two countries, West German industrialists also hope that more contracts will accompany an overall improvement in the climate. Kraftwerk Union, the West German power station company, has offered Moscow equipment for modernising its nuclear power plants but is still waiting for a reply.

Possible nuclear collaboration is among the industrial topics expected to be discussed in talks between West German and Soviet experts in Bonn at the beginning of April.

Moscow is now holding out the prospect of a controlled improvement in ties in exchange for conciliatory language from Bonn. Soviet diplomats say Mr Kohl's speech will be scrutinised for evidence that the Federal Republic is sincere in wanting a return to "normality."

Protesters in Poland detained

POLISH POLICE detained five members of an outlawed peace and ecology movement outside a Krakow courthouse yesterday for protesting against their scheduled trial, AP reports from Warsaw.

Police also detained about 10 other members of the Freedom and Peace Movement in Wroclaw during a demonstration of support for a student expelled for refusing to take the military oath.

The five Krakow demonstrators carried a banner and distributed leaflets protesting misdemeanour court trials against members of the organisation, according to Mr Jacek Czaputowicz, a leader of Freedom and Peace.

They were scheduled to appear in the court yesterday in connection with charges stemming from a February 13 demonstration protesting against the alleged torture of political prisoners in Afghanistan.

In Wroclaw, about 20 people demonstrated outside the Wroclaw Medical Academy to protest against the expulsion of Mr Marek Krukowski last year for refusing to take the military oath, Mr Czaputowicz said in a telephone interview.

Banker foresees greater exchange rate stability

BY PHILIP STEPHENS, ECONOMICS CORRESPONDENT

LAST MONTH's Paris accord between leading industrial nations may mark the beginning of an era of greater exchange rate stability, but should not been seen as an attempt to set up currency target zones, a leading West German central banker said yesterday.

Dr Leonard Gleske, the Bundesbank council member responsible for international economic co-operation, said that from a medium-term perspective the exchange rates of the major currencies may now be around "equilibrium" levels. There was reason to believe that a further decline in the dollar would represent "overshooting and would eventually be reversed.

Speaking in London, Dr Gleske said the aim of the Paris agreement between the Group of Five industrial nations and Canada was to inject patience into the behaviour of the foreign exchange markets.

That would allow the sharp depreciation in the dollar's value since 1985 to begin reversing the serious imbalances in the world economy—the huge US current account deficit and parallel surpluses in Japan and West Germany.

Dr Gleske, however, stressed that the role of the monetary and interest policies operated by central banks in maintaining stability was limited.

"The transatlantic and transpacific debates of recent months have revealed a tendency to treat action on interest rates as a ready substitute for all other action dealing with the more fundamental causes of international payments imbalances," he said.

Banker warns on globalisation

THE INCREASING globalisation of financial markets has far outstripped regulation of the markets, posing unprecedented risks, a leading Swiss banker warned yesterday, Reuter reports from Geneva.

"The fear factor is enormous" among bankers and other participants in financial markets, said Mr Hans-Joerg Rudloff, director general of Credit Suisse in Zurich.

WORLD'S MAJOR TRADING BLOCS SEEK WAY TO END 30-YEAR IMPASSE

EEC-Comecon to discuss formal relations

THE EUROPEAN Community (EEC) and the Soviet-led Comecon trading bloc will meet in Geneva today to discuss establishing formal relations, Reuter reports from Geneva.

The two-day meeting of officials follows exploratory talks in Geneva in September to review possibilities of an accord after 30 years of mutual non-recognition.

Experts from the two trading blocs aim to draft a joint statement on a general framework for relations which politicians will then consider.

Mr Christian Dufour, an official from the EEC diplomatic mission taking part in the talks, said yesterday: "The two sides will have the same heads of delegations as last time with four or five experts on each side."

Mr John Maslen, head of EEC relations with the communist economies of East Europe, will lead the delegation from the 12-nation Community.

Poland's Mr Zdzislaw Kurowski, deputy secretary of Comecon, or the Council for Mutual Economic Assistance, will head the delegation representing the 10-member bloc.

The September meeting ended with a joint statement saying talks had taken place in a "good and businesslike atmosphere," but had not touched upon "specific areas of co-operation."

Similar negotiations were broken off in 1980 when East-West relations deteriorated following Soviet intervention in Afghanistan.

In January, the Community held its first-ever direct talks with Moscow on establishing diplomatic relations.

The preparatory talks held in Brussels, taken as a fresh sign of improved relations since Mr Mikhail Gorbachev took over Soviet leadership two years ago, are expected to be followed by further meetings.

EEC governments have always insisted that institutional recognition between the Community and Comecon run parallel to any existing or future accords with Comecon-member states.

Last year the Community won agreement from Comecon that any accord between the two trading blocs would not affect its ties with individual Eastern bloc countries.

The Community is negotiating with Hungary, Czechoslovakia and Romania over commercial accords.

It had a deficit of about $10bn in its trade relations with East European communist states in 1986, due largely to huge imports of Soviet fuels and raw materials.

These imports were only partially offset by Community exports of equipment and manufactured goods to the Eastern bloc.

Comecon's Eastern European members are: the Soviet Union, Bulgaria, Czechoslovakia, East Germany, Hungary, Poland, and Romania. Remaining members are Mongolia, Vietnam and Cuba.

Mitterrand urges greater effort in space

FRENCH PRESIDENT Mr François Mitterand said in an interview published yesterday that Europe should push forward with research and co-operation to avoid space being monopolised by Washington and Moscow, Reuter reports from Rome.

In an interview with the Italian Corriere della Sera newspaper, Mr Mitterand spoke of his hopes for greater industrial, economic, technological and monetary co-operation between European nations.

He said Europe's role in space technology was crucial for its future, adding: "We must guarantee the autonomy of Europe in such a way as to avoid the United States and the Soviet Union monopolising space."

He said European nations could work towards this by pushing ahead with research and development on Ariane 5 – an advanced version of the European satellite launcher – with the planned European Space Agency Hermes space shuttle, and by taking part on an equal footing in the planned US orbital station Columbus.

Europe could also co-operate in developing observation satellites of its own and beginning research into a European orbital space station.

On monetary issues, the French president said his hopes of European nations using a common currency would take several years to achieve.

"It is, however, possible to make the ECU (European Currency Unit) into a great international currency, which alongside other European currencies, could play a stabilising role between the yen and the dollar," he added.

"Either the European Monetary System (EMS) succeeds and Europe succeeds, or it will fail and Europe too will fail," he said.

Mr Mitterrand said the philosophy of "every man for himself" was a fatal error in terms of the future of Europe.

"If European countries do not unite, they will have neither the political dimension, nor the economic capacity to confront military, industrial, commercial, and technological competition," he said.

Mr François Mitterrand

Turkish trade gap widens

By David Barchard in Ankara

THE FALL in oil prices in the Middle East last year left Turkey with its largest trade deficit since 1981, the State Institute of Statistics disclosed yesterday.

The year-end deficit was $3.6bn, 9 per cent up on 1985. Exports fell by 6.3 per cent to $7.4bn, while imports also dropped, though only by 2.1 per cent to $11.1bn.

Imports of crude oil fell by 45 per cent to $1.8bn. Trade with Islamic countries, which has fuelled Turkey's export-led economic growth since 1980 fell sharply, though it came into surplus for the first time.

On the other hand Turkey's exports to the OECD and the EEC have continued to grow by about 4 per cent.

Though the performance will disappoint those Turkish officials who thought that the fall in petroleum prices would leave Turkey with substantial net benefits, perhaps bringing the current account deficit below $500m, the actual result can be taken to mean that Turkey's exporters are still making inroads into difficult international markets even when "windfall" conditions in Middle Eastern markets have ended.

Lithuania chief acts against nationalism

THE COMMUNIST Party leader of Soviet Lithuania has ordered more energetic measures to counter nationalism and religion in his republic, which marks the 600th anniversary of its conversion to Catholicism next June, Reuter reports from Moscow.

Speaking at a Lithuanian party Central Committee meeting, Petras Griskevicius said the proportion of non-Lithuanians in the republic's higher education system had fallen over the last 10 years.

"We must work more persistently to eradicate all forms of nationalist narrow-mindedness and conceit, nationalism and chauvinism," he said.

Ethnic Lithuanians form a majority in their own republic, representing about 80 per cent of the population of 2.5m.

Mr Griskevicius' speech was reported in the Lithuanian party newspaper Sovetskaya Litva.

His remarks echoed condemnations of nationalism and religious belief which several party leaders in the Soviet Union's 15 republics have made since nationalist riots erupted in the Central Asian republic of Kazakhstan last December.

Lithuania, one of three Baltic republics incorporated into the Soviet Union in 1940, has strong Roman Catholic traditions and close historical and cultural links with Poland, with which it once formed a joint empire.

Mr Griskevicius said atheistic propaganda must improve.

"We must strengthen our arguments against religious views everywhere, and we must decisively and skilfully dethrone clerical extremism," he said.

Lithuania's official media wage a permanent campaign against Catholicism but have stepped up their efforts this year as the anniversary of the nation's conversion approaches.

The campaign centres on the argument of official Soviet historians that the Church, far from being the chief guardian of the nation's cultural heritage, has been hostile or indifferent to Lithuanian interests.

Pope John Paul, who closely follows events in Lithuania, has said he was refused permission to go to the republic in 1984 to attend ceremonies marking the 500th anniversary of the death of the nation's patron Saint Casimir.

A deacon of the church in neighbouring Latvia told a news conference in Moscow last November that a papal visit to Lithuania this year was under consideration and might be approved by the Soviet authorities.

Murdoch in Lisbon talks

PRESS BARON Rupert Murdoch is in Portugal to discuss possible involvement in the local media, including a proposed private television channel, officials told Reuter in Lisbon yesterday.

Mr Murdoch, a leading contender for the television franchise had dinner on Monday night with President Mario Soares. Parliament is shortly due to debate the partial privatisation of television, currently a state monopoly.

Fermenta founder's assets impounded

A STOCKHOLM court impounded property worth SKr 800,000 ($125,000) from Refaat el-Sayed, founder of the Fermenta biotechnology company, who is being sued by creditors.

The impounded property, including the contents of a bank account, unspecified shares and three cars, represents a tiny fraction of the SKr 570m he owes Swedish bankers Gotabanken.

The Egyptian-born entrepreneur's total debts following the crash of Fermenta stock during 1986 to a tenth of its former value is estimated to be up to SKr 1bn.

Under Swedish law, El-Sayed, who lost control of his principal stake in Fermenta to creditors last January, now faces bankruptcy if Gotabanken pursues a claim for its share of the debts through the court.

Fermenta stock plunged after auditors discovered irregularities in the 1986 accounts and slashed the company's profit forecasts from SKr 800m to SKr 400m.

Fermenta was expelled from Stockholm's stock exchange last January because of what the bourse board described as "unparalleled misconduct" during the El-Sayed era. Reuter

Netherlands votes today in local council elections

BY LAURA RAUN IN AMSTERDAM

VOTERS ACROSS the Netherlands go to the polls today to elect provincial councils which will choose a new First (Upper) Chamber of Parliament in June.

Some 744 council members in all 12 provinces are to be chosen in an election dominated by national issues, as usual, despite national politicians' efforts to stay out of the limelight. The economy and unemployment have figured most prominently with local politicians trying to paint these themes in provincial colours.

Secondary issues, such as environmental policy and care for growing numbers of old people, where the councils play a bigger role, also have drawn attention in a generally low-key campaign.

Provincial and First Chamber elections are held every four years and are based on proportional representation. Of the 748 provincial council seats, 55 per cent are held by the Christian Democrats and Liberals together, the governing coalition parties, and 30.5 per cent jointly by the Socialists and Democrats '66, the main opposition parties. The rest are divided among a bevy of small left- and right-wing parties.

The Christian Democrat-Liberal coalition is expected to maintain its comfortable 56 per cent majority in the 75-seat First Chamber, although some predict that high unemployment and weak economic growth will deprive the coalition of its majority.

Sceptics also point to forecasts of a high voter turnout, which generally helps the Labour party. Opinion pollsters have predicted that as many as 77 per cent of eligible voters may cast ballots, which would be significantly higher than the 68 per cent in the last provincial election in 1982. Due to the general election last year provincial elections were postponed to 1987.

Weinberger hopeful about bases

MR CASPAR WEINBERGER, the US Defence Secretary, ended a delicate visit to Spain yesterday saying he was hopeful that there would be an agreement to keep a reduced number of American forces here, Reuter reports from Madrid.

Mr Weinberger told a news conference before flying to Turkey that he and Mr Narcis Serra, Spanish Defence Minister, had explored Spanish demands for a sharp reduction in the US military presence at four joint air and naval bases.

"There are indeed differences within those positions, but I think that with the degree of similarity and the degree of joint realisation as to how important it is to preserve Western strength and security, I'm very hopeful that ultimately the negotiators will be able to reach a satisfactory agreement," he said.

Mr Innocencio Arias, chief spokesman at the Spanish Foreign Ministry, said that Mr Weinberger's 36-hour visit had not produced any change in the positions of the two sides, which resume formal negotiations in Washington on April 2-3.

"Spain, too, is very hopeful that there will be a satisfactory agreement for both sides with real reductions in men, equipment and installations. That was our position before and it remains the same," he said.

Spain's Socialist Government has threatened not to renew a 34-year-old defence pact between the two countries when it expires next year unless Washington agrees to make significant cuts in the number of troops it is allowed to station here, currently 12,500.

That reduction was a condition of a referendum a year ago in which Spaniards voted to remain in the North Atlantic Treaty Organisation (Nato). Mr Weinberger said the US proposals addressed the requirement for cuts but reiterated that tasks carried out by any departing units must be taken over by Spain.

The strength of public feeling on the bases—regarded as the legacy of a quest by the late dictator Francisco Franco for international acceptability—was shown by a protest march to the Torrejon airfield outside Madrid on Sunday only hours before the US Defence Secretary arrived.

Lufthansa seeks regular services to E Germany

BY LESLIE COLITT IN BERLIN

LUFTHANSA, the West German airline, is negotiating with East Germany to begin regular air services between the two German states. Allied officials in West Berlin said yeserday they were informed about the talks as air links could only be approved if they did not affect the three Allied air corridors across East Germany to West Berlin.

A member of Lufthansa's board, Mr Frank Beckmann, said last weekend that the airline was interested in scheduled flights between Frankfurt and Leipzig and perhaps other cities together with Interflug, the East German airline.

In 1984 the two airlines inaugurated a limited service during the spring and autumn Leipzig Trade Fairs between Leipzig and Frankfurt and four other West German cities. However, these involve a costly detour through Czechoslovak air space in order not to impinge on the Berlin air corridors.

Mr Beckman ruled out Lufthansa flights to West Berlin, which it has long desired, "for the time being." Only aircraft registered in the US, UK or France can fly to West Berlin. West Berlin's governing mayor, however, proposed that Lufthansa could fly to West Berlin on a north-south route which would not touch the Allied air corridors. Several Allied air carriers, however, have either begun regular services between West Berlin and Copenhagen or have applied to do so and would resist such competition.

Charismatic Walloon tries to bridge Belgian linguistic divide

BY TIM DICKSON IN BRUSSELS

"WE MAY be condemned to live with regional differences. But I really think we are now entering a more adult phase in Belgium's history."

That optimism—expressed by Mr Melchior Wathelet, the leader of Wallonia's regional government—is not always shared in a country which at times over the past six months has been made to look ludicrous by its apparently petty, albeit deep-rooted language dispute.

But the youthful and charismatic Mr Wathelet—tipped by some as a future Belgian Prime Minister—can at least claim to be trying harder than many of his compatriots to fulfil his own prophecy.

This week, for example, the 38-year-old president of the Walloon regional executive, helped assemble about 100 businessmen and academics from all over the country for a one day biotechnology conference at Liege. Sponsored jointly with his Flemish counterpart, Mr Gaston Geens, the purpose of the gathering was to pool ideas on this fast growing industry (well represented in each of the major communities) and look for possible areas of future co-operation.

Outside Belgium, such an occasion would barely merit a mention, but given the strong cultural economic and linguistic tensions between North and South—stretching back to the birth of the Belgian state in the early 1830s—the event assumes much wider significance.

"This is the first common initiative between Flanders and Wallonia since the 1980 constitutional reforms which set the basis for our present system of regional government," Mr Wathelet claimed beforehand.

A committed Federalist who clearly admires the pragmatic policies of Mr Wilfried Martens, the Prime Minister, Mr Wathelet captured the nation's headlines late last year by embarking on what was dubbed his "Tour de Flanders" — essentially a one-day bridge-building exercise during which he addressed Flemish audiences on the need for better mutual understanding and wider economic and political co-operation between the two regions.

The impact of his visit can be gauged by the fact that several Flemish newspapers — never slow to cock a snook at what many of their readers consider the complacency and backwardness of their southern neighbours—were surprised and impressed that the Francophone Mr Wathelet was both able and willing to make his impassioned speeches in their native tongue.

"It was concerned that because Belgians are reading fewer national newspapers and watching purely regional television channels the image of Wallonia in Flanders has been very bad," Mr Wathelet explains.

"My goal in going to Flanders was to point out that the Walloon people are not as they are too often described in the North—lazy, old-fashioned and suffering from a depressed economy."

In a nutshell, Mr Wathelet's message was that that notwithstanding the region's declining coal, steel and heavy engineering industries (epitomised perhaps by the troubled steel company Cockerill Sambre) Wallonia has its fair share of exciting high technology businesses; that his region is the most important trading partner for the Flemish people; and that it is not only possible but highly desirable to forge closer links to avoid duplication of effort and achieve greater efficiency.

Mr Wathelet insists that his brand of federalism is in no way incompatible with a strong regional identity — "I am a strong defender of Wallonia's interests," he adds, pointing to the risks of Flemish intransigence or cries of treachery closer to home.

But he is also adamant that Belgium has more pressing problems than its linguistic differences—economic reconstruction, youth training, excessive public spending, for example—and that aspects of the regional rivalry can be damaging to both sides.

One example is the search for internationally mobile investments—an activity pursued independently and with equal vigour in North and South. "Not so long ago," says Mr Wathelet, "a team from one of the regions would go to the US with three possibilities in mind.

"The first was that they would attract a company to their part of the country, the second was that it would go elsewhere in the world, and the last, and most depressing, was to find that it had gone to the other region. We have to learn that the second best solution for us is that the company goes to Flanders, not France or West Germany, and vice versa as far as the Flemish are concerned."

No one suggests that attitudes are changing overnight but the regional governments have recently set up a "hot line" to co-ordinate their promotional efforts and to ensure that outsiders do not exploit any lack of comunication between Flanders and Wallonia to "up the ante" unfairly. There is also an unwritten "code of good behaviour" at political level designed to outlaw the not uncommon practice of promoting one region by blackening the reputation of the other.

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Aquino denies CIA operations

By Richard Gourlay in Manila

President Corazon Aquino yesterday denied knowledge of any CIA operations in the Philippines following reports that she had approved a multi-million-dollar operation against Communist insurgents in the Philippines that was authorised by President Ronald Reagan.

The report in Newsweek magazine quoted a "critical Washington source" as saying that Mr Reagan had approved the CIA operation which calls for intelligence gathering and the launch of undercover political activities in the Philippines. The CIA will add about a dozen agents to its 115-member station in Manila, the report said.

"The President is not aware of, nor has she seen any American CIA plans for the Philippines and therefore cannot comment on the articles," a short statement from the presidential palace said.

HK press law under attack

THE Hong Kong Foreign Correspondents' Club asked Monday for a meeting with Sir Geoffrey Howe, British Foreign Secretary to voice opposition to the Colony's new press law, AP reports from Hong Kong.

The law, proposed by this British colony's government, makes the publication of "false news" that is likely to cause public alarm a crime punishable by up to HK$100,000 (£8,130) in fines and two years imprisonment. It took effect last Wednesday. Media, Church and academic groups have strongly opposed the measure.

Indonesia curbs election news

INDONESIA announced restrictions yesterday on foreign journalists covering next month's elections, limiting access to the countryside and requiring authorisation to report on activities in the capital, Reuter reports from Jakata.

Information Ministry guidelines issued to foreign reporters in effect restrict access to the countryside where 80 per cent of Indonesia's 168m people live. They require journalists to report their presence to the Information Department and certain government officials when they visit any of the 27 provinces of Indonesia.

Syria-Iran alliance perched on a Beirut knife-edge

Andrew Gowers reports from Damascus on the strains wrought by the presence of Iranian fundamentalists in Lebanon on the close relationship with Tehran

OVER THE past few days as the life of a Western hostage in Lebanon has perched once again on a knife edge, so has one of the most important strategic relationships in the Middle East, that between Syria and Iran.

Distinct rumblings of anger could be heard in Damascus as the Revolutionary Justice Organisation, one of the proliferating and loosely defined pro-Iranian groups in Beirut's southern suburbs, warned that it was about to execute Mr Jean-Louis Normandin, a French television technician.

President Hafez al-Assad of Syria sent his troops into West Beirut last month in a mission to improve the image of his country as well as to restore order to the streets.

He also wants, it is assumed, to secure the release of hostages to improve his state's image in the West which was tarnished by the Hindawi affair in which a Jordanan, carrying a Syrian passport, was convicted in London of attempting to blow up an El Al airline on a flight from Heathrow to Tel Aviv.

The killing of a hostage not far from the Syrian guns would in all probability be interpreted by Mr Assad—a cautious man but ruthless when roused—as a slap in the face. It might be enough to persuade him to send his forces into Beirut's southern suburbs which have been the principal breeding ground for pro-Iranian Shia militancy. Even if Mr Normandin is spared, many observers believe broader confrontation is brewing between Syria and Iran in any case.

If there were to be a breach between the two countries, the repercussions could be profound. Syria has been Iran's most important and consistent ally in its war against Iraq. This relationship allows the Iranian leadership of the Ayatollah Ruhollah Khoemeini to maintain that its campaign is not a confrontation with the Arab world in general, but is solely aimed at deposing the Iraqi regime which both the Ayatollah and Mr Assad detest.

The withdrawal of such an alibi would be a heavy psychological blow for Tehran.

It is not as if the latest tension between Syria and Iran is an isolated incident. Sparks have flown sporadically between the two countries ever since Syria permitted Iran to send Revolutionary Guards into Lebanon's eastern Bekaa Valley.

Tehran's influence in Lebanon—through its proxy, the Hizbollah, or Party of God—has grown steadily since, abetted by the radicalising effect of Israel's 1982 invasion of the country which sent thousands upon thousands of Shia peasants from the south into the Beirut slums. Iran's unabashed ambition has been to create a second Islamic republic in Lebanon on the very doorstep of radical Moslems' sworn enemy, Israel.

It is equally clear that such an idea is anathema to Syria's Baathist regime which has always claimed rights to ultimate influence over events on its western border, and which has itself faced a challenge in the past from religious fundamentalists—albeit of the Sunni rather than Shia Moslem variety.

Even if Mr Assad sympathises with the Iranian aim of striking at Israel, he is likely to be as unenthusiastic about Hizbollah's method of random attack in Israeli-occupied south Lebanon, as he is about allowing an independent Palestine Liberation Organisation to flourish once again in the country.

This conflict of objectives has been thrown sharply into focus by Mr Assad's decision to send his troops back into West Beirut, and more particularly by the killing of 23 Hizbollahis in Beirut's Basta district on February 24 at the hands of Syrian soldiers.

There has been a stream of high level Iranian visitors to Damascus in the past few weeks, including most recently Mr Ali Akbar Montashemi, the country's Interior Minister and former ambassador to Syria.

While Tehran has sharply attacked Syrian actions, Mr Assad has made it perfectly clear that he will not brook such criticism, and that Syria will do whatever it considers necessary to restore order in Beirut.

The confrontation may escalate further. Many observers believe that the Syrian forces' mission will be incomplete unless they eventually move to disarm the Hizbollahis in the southern suburbs.

Furthermore the trouble in Lebanon coincides with other potential reasons for strain between Tehran and Damascus. The rationale behind Syria's support for Iran in the Gulf War has begun to wear thin as Tehran's forces have continued to occupy Arab territory, some of the economic under-pinning for the Syrian-Iranian friendship has crumbled and there have been reports that Syria, which has a contract to buy 5m tonnes a year of cheap Iranian oil, has not taken any of its crude since last April. It is also believed to owe Iran $2.3bn in overdue payments.

All this is not to say that Syria is about unilaterally to make a break with Iran. The bond which ties the two countries in the Gulf War is strong and Syrian officials emphasise their attachment to the general aims of Iran's revolutionary leadership.

Up to now, President Assad has been willing to pay the price in Lebanon—by allowing the Iranians an entre there — for his stance in the Gulf War. But it is by no means certain that he will continue to do so if his forces in Beirut meet real trouble from groups claiming allegiance to Tehran.

Car bomb at Syrian checkpoint

By Our Middle East Staff

A CAR bomb exploded in West Beirut at a Syrian Army checkpoint yesterday injuring one person and setting three cars on fire. It was the fourth blast in the city sector since Syrian troops occupied the sector of the city just over three weeks ago.

There is no news, meanwhile, about the fate of Mr Jean-Louis Normandin, the French hostage, threatened with execution deadline of 6 p. m. GMT on Monday by the Revolutionary Justice Organisation unless Paris clarified its Middle East policy.

Sheikh Mohammed Hussein Fadlallah, the spiritual guide of the pro-Iranian Shia fundamentalist Hizbollah which is believed to be linked to the organisation, said Mr Normandin's kidnappers had been influenced by his appeal on Sunday to spare the French TV crewman's life.

Portugal wants a step-by-step Macao handover

BY DIANA SMITH IN LISBON

Ashley Ashwood

Traffic in Macao: reassessment by Portuguese banks and industrialists

PORTUGUESE negotiators are returning to Peking today willing and able to discuss the gradual handover of Macao, the tiny territory on the coast of the South China Sea that Portugal has administered for over 400 years—but not sure that all ground has been covered thoroughly enough to permit a draft final agreement at this stage.

The main difference between the Chinese and Portuguese approach to agreement over when and how Macao is handed back to the People's Republic of China appears to be that the Chinese are pressing for firm commitment to the earliest possible start-of-handover-date (possibly 1996) with work on details left for later. The Portuguese want to have the details cut and dried before committing themselves to a firm date.

Lisbon is perceptibly anxious not to make a mess of the Macao handover. The bitter aftertaste of hasty, Marxist-pressured decolonisation in 1975 that left civil and tribal war in Angola, in shambles and in due course, terrible famine, in Mozambique, severe economic difficulties in Cape Verde, Guinea-Bissau and Sao Tome/Principe and according to persistent reports, genocide of the Mauber people in Timor after Indonesia's annexation in 1976.

The main areas still to be agreed are:

- How the five-year transition will work.
- How nationality will be setled for Macao residents
- How the People's Assembly, Macao's consultative body will function, and
- Perhaps the most economically-burning question — What will happen to the highly lucrative gambling industry?

Macao is the last outpost of Portuguese overseas administration. It is an oddity in Portugal's history of overseas administration, because it was not a colony or "overseas province" (the old Portuguese euphemism for colony), but a Chinese territory conceded to Portuguese management almost half a millenium ago on an emperor's agreement until further notice.

The Portuguese presence is far less-perceptible, apart from the architecture, than it was in Africa. Only a few thousand Macao residents are Portuguese-born: 50 Chinese Macaenses registered under a facility granted after 1975 for Portuguese citizenship, the rest of the 400,000 population is Chinese.

Paradoxically, now that the territory is due for handover—sometime between 1996 and the turn of the century—Portuguese bank and industrialists are reassessing Macao as a gate to Far Est amrkets. A pharmaceutical plant, Hovione, opened early this year, Portugal's Tudor batteries is building a unit and privately-owned Portuguese commercial banks are considering branches in Macao.

However small and low-profile the Portuguese presence and however deep the desire not to upset smooth negotiations with the Chinese, there seems to be a deeper desire to be seen to resolve Macao without haste, naivete or concessions that might provoke unease among the Macaenses and lead to another rush of refugees to Portugal.

Harsh memories do not fade easily: the despair of 750,000 refugees from Africa flooding Portugal in 1975 and deprivation that persists in fields outside Lisbon's national stadium where Chinese refugees from Timor live in substandard quarters with little hope of the integration into Portuguese society that refugees from Africa managed.

Australian current account deficit cut by trade boost

BY CHRIS SHERWELL IN SYDNEY

A RARE swing into surplus on the visible trade account helped reduce Australia's February current account deficit to A$750m (£324m) from January's A$1.24bn, according to balance of payments figures published yesterday.

The improvement was seized upon by both Mr Bob Hawke, the Prime Minister, and Mr Paul Keating, the Treasurer, who said the figures proved the Government's economic policies "are right and are working as planned."

The closely-watched figures were broadly in line with expectations and, as in previous months, the foreign exchange markets took the news largely in their stride.

The Australian dollar strengthened to finish at 68.7 US cents, up half a cent, prompting Mr Hawke to reaffirm his belief that the country's high interest rates would come down this year, before the next election.

Independent analysts expect the current accoung deficit for the 1986-87 financial year ending in June to come in at slightly above last year's record A$13.7bn. They also continue to warn that this level, at around 6 per cent of gross domestic product, is unsustainable. Of the OECD group of countries, only Norway has a higher deficit as a proportion

- Sir Joh Bjelke-Petersen, the Queensland Premier, who is fighting to lead right-wing opposition to Mr Bob Hawke's Labor Government, yesterday forced only one public defection from the National Party's coalition with the Liberals at a crucial meeting in Canberra.

The single defection, compared to the 12 Sir Joh originally expected, means that the opposition coalition remains intact a while longer and that an unbridgeable division of the National Party has been temporarily averted.

But it also leaves the opposition languishing in crisis and assists the Hawke government at a time when its popularity is in question. An opinion poll out today indicates that an opposition led by Sir Joh would have won an election if it was held at the end of last month.

The Nationals' next important test is due next week, when the National Party's Federal Council's scheduled to meet. There Mr Ian Sinclair, the party leader at federal level, appears to have less chance of holding the line.

Trade pact will boost Canada, says Mulroney

By Bernard Simon in Toronto

CANADA'S Progressive Conservative Government has unequivocally linked conclusion of a free trade agreement with the US to the country's long-term economic well-being.

Making his strongest call for public support for the 10 months old negotiations, Mr Brian Mulroney, the Canadian Prime Minister, said during a special parliamentary debate that free trade could create "hundreds of thousands" of new jobs and help narrow the wide disparities among Canada's far-flung regional *economies*.

The government disclosed during the debate that negotiators are working towards a far-reaching agreement, to include agriculture, *industrial* subsidies, customs procedures, investment, services and intellectual property.

Remaining tariffs on the *C$170bn (£85bn)* in two-way trade would be phased out over a period of 10 to 15 years.

Miss Pat Carney, Minister for International Trade, said that Canada had proposed dropping federal government procure*ment preferences* in return for an end to US Buy America policies *insofar* as they relate to Canadian suppliers. The Canadians are also pressing for an impartial bilateral tribunal *to settle disputes.*

On the other hand, Ministers said during the debate that Canada's regional development subsidies, social security programmes, *farm* marketing boards and measures protecting cultural industries are not on the bargaining table.

After a meeting between the *two teams in Ottawa*, the chief US negotiator, Mr Peter Murphy, confirmed that both sides aimed to draw up a draft agreement by June.

He cautioned however, that "we're trying to *push forward* with liberalising measures at a time when Congress is going in just the other direction."

The special debate has helped thrust the free trade issue to the centre of the Canadian political stage. The Government has become increasingly *outspoken* in its *support* for free trade in recent months as chances of an agreement have brightened.

Mr Mulroney apparently sees a *successful* conclusion of the talks as a key opportunity to boost his party's sagging popularity.

Tokyo sees collapse of the Fairchild deal as an expression of Washington's anger over trade relations

Japan voices concern at blow to Fujitsu

JAPAN HAS *swiftly* voiced *its* concern at the collapse of the *controversial* plan under which Fujitsu, the Japanese electronics group, would have bought Fairchild Semiconductor of the US.

It sees the termination of the pact whereby Schlumberger was seeking to sell 80 per cent of its Fairchild subsidiary to the Japanese company as an expression of *official* US anger over its trade relations with Japan.

Mr Hajime Tamura, Japan's Minister of International Trade and Industry, blamed *mounting* political pressure against the deal in the US for the collapse of the deal.

Fairchild echoed the Japanese reaction by *blaming* political pressure from Washington for Monday's announcement bringing the deal to an end.

The collapse *has also* resurrected talk of a management buyout at Fairchild and of an alternative buyer for the company which once led the world in chip technology but has since seen its prowess decline.

Mr Tamura yesterday in Tokyo criticised the statements made last week by Mr Malcolm Baldrige, US Commerce Secretary, and Mr *Caspar* Weinberger, Defence Secretary.

Miti officials said later that while they assumed that the final decision to call off the deal was not made by the US Government, they found the Baldrige and *Weinberger comments* disturbing, unreasonable, regrettable and "difficult for us to understand."

Fujitsu said it agreed with Schlumberger *to* abandon the deal out of consideration for the mounting political opposition in the US to it.

Completion of the deal had been delayed by an *unusually* thorough US Justice Department anti-trust investigation. The US government was widely believed to have been using this *to obstruct the deal because of* national security and international trade grounds. It feared a "domino effect" in which other Japanese companies would try to acquire US chip manufacturers.

Mr Hajime Tamura

Mr Malcolm Baldrige

In a memo to employees, Mr Donald Brooks, Fairchild president, said: "Political pressure from Washington made it impossible for Fujitsu to proceed" with the acquisition of Fairchild Semiconductor.

Cancellation of the merger came, however, as a shock to Fairchild. Only last Thursday, Mr Brooks had reassured Fairchild employees that the Justice Department investigation was proceeding as expected and that the company's lawyers were confident that the deal would go through.

Industry critics of the proposed acquisition welcomed news of the cancellation. "Fujitsu got the message that the US government is not going to allow legal rape and pillage of the US semiconductor *industry*," said Mr Wilfred Corrigan, president of LSI Logic, a major Silicon Valley chip producer, and former president of Fairchild Semiconductor.

For Fairchild, the cancellation of the Fujitsu proposal means that the company must move quickly to find alternative investors.

Schlumberger, which has owned Fairchild since 1979 and poured an estimated $1.5bn into the company without *seeing any* return on its investment, is believed to be anxious to unload its loss-making subsidiary.

On Monday Mr Brooks said that he had proposed a management buyout. He is understood to have renewed efforts to raise financing for a buyout, which had been considered before the Fujitsu proposal.

Fairchild was the *original* Silicon Valley chip manufacturer. The company had estimated sales of $49m last year, making it the seventh largest chip maker in the US.

China moves up world shipbuilding league

By Kevin Brown, Transport Correspondent

CHINA overtook West Germany last year as the world's third largest shipbuilder behind Japan and South Korea, according to figures issued yesterday.

Lloyd's Register, the independent London-based ship classification society, said in its annual summary of merchant ship completions that Chinese production rose by 44 per cent to 841,451 gross tons. Only a small percentage was for export.

This compares with a fall of 9.1 per cent in West German production to 515,394 gross tons. The Chinese figures include production in Taiwan, however, which is treated by Lloyd's as a province of mainland China.

Over-capacity

The report shows that Japanese production fell by 14 per cent to 3,177,953 gross tonnes, reflecting over-capacity in Japanese yards and lack of competitiveness caused by the appreciation of the yen.

South Korean output rose by 39 per cent to 3,642,495 gross tonnes, following aggressive marketing by South Korean yards, which have led a trend to lower prices.

Lloyd's said Japanese output represented 48.5 per cent of the world total, compared with 52.3 per cent in 1985. South Korea accounted for 21.6 per cent of world production, compared with 14.4 per cent in 1985.

UK production

The number of ships completed worldwide fell by 330 to 1,634 totalling 16,844,969 gross tons, a fall of 8.4 per cent *on the previous year*.

Other leading shipbuilding nations were Brazil, which produced 429,855 gross tons (down 151,382) Poland (375,365 gross tons, up 14,385) East Germany (381,668, up 3,667) and Denmark (381,492, down 96,104).

The UK produced 36 ships totalling 98,895 gross tons, down from 171,940 gross tons in 1985. This compares with production of more than 1.5m gross tons in 1976.

Nakasone urges more effort to end semiconductor row with US

BY IAN RODGER IN TOKYO

MR YASUHIRO NAKASONE, Japan's Prime Minister, called on the country's *Ministry* of *International* Trade and Industry (Miti) to make greater efforts to resolve the semiconductor trade dispute with the US.

The Prime Minister's intervention came with *only* two weeks remaining until the day, April 1, on which the US Government is threatening to withdraw from the chip trade agreement signed last September.

Mr Nakasone met with Miti Minister Mr Hajime Tamura and Miti *officials* for nearly an hour yesterday, during which he impressed on them the importance of the issue in US-Japan trade relations and the need to do everything possible to resolve the dispute.

Later, Miti officials revealed the results *of a study of semi*conductor markets in Hong Kong and Singapore aimed at finding out whether or not US charges of dumping by Japanese producers in third *markets* were true.

Mr Yukio Honda, the Miti official who carried out the study, said *it* showed that Japanese makers were selling 256K dram chips at $2 apiece or so in South East Asia markets in conformity with the chip agreement, and significantly *above the prevailing market* price there of about $1.60 to $1.70.

Consequently, their new orders in December were about 63 per cent *below* the average level last summer.

The lower-priced chips were being supplied by US, Korean and "grey" market operators from Japan, *Mr Honda said.*

"The 'grey' market operators included some US and other foreign companies as well as small Japanese trading companies that had bought chips at low prices in Japan and then exported them.

Mr Honda was confident that the 20 per cent cut in Japanese *production* imposed by Miti last month would cause the "grey" market to disappear and prices to firm. Production would be curtailed to a similar extent in *the second* quarter, he said.

Miti officials said te accelerating rise in chip exports that had appeared in recent trade statistics was due to exports of linear and logic chips for making consumer products. Exports of memory chips covered by the chip agreement were *in fact* declining, they added.

Mr Osamu Watanabe, director of Miti's Americas and Oceanic Division, said Mr Honda's study *indicated* that the Japanese Government was implementing the agreement. It was regrettable that a lot of people with very little knowledge of the facts were *claiming* that Japan was breaking the agreement.

He suspected that US officials were conducting their own studies now and looked forward *to meeting them soon*

EEC has first trade surplus

BY QUENTIN PEEL IN BRUSSELS

THE EEC recorded its first-ever visible trade surplus in 1986, estimated at just Ecu 5bn *(£3.6bn)*, because of the slump in oil prices and the decline in the dollar-denominated cost of other imports.

The import bill for the 12 member-states *fell* 17 per cent — the steepest yearly decline in the history of the Community —from Ecu 406bn to an estimated Ecu 335bn for 1986.

Exports from all the EEC countries to external trading partners also fell, but by only 10 per cent, from Ecu 379bn in 1985 to an estimated Ecu 340bn last year.

The figures, assembled by Eurostat, the statistical office of the Community, show a 48 per cent *fall in the price of fuel* imports, and a 21 per cent decline in the Ecu-denominated price of other non-food commodities.

Thus, although imports actually rose in volume by 7 per cent, this was submerged in an overall 23 per cent price reduction.

Fuel imports declined only 2 per cent in volume terms, but in value fell from Ecu 120bn in 1985 to barely half — Ecu 61bn — in 1986.

Imports from developing countries fell 30 per cent to some Ecu 109bn, while *imports* from the newly industrialising countries of the Far East still rose by 4 per cent.

Imports from the US to the EEC fell 18 per cent to Ecu 56bn, whereas imports from *Japan were apparently unaffec*ted by the rise in the value of the yen, increasing by 16 per cent to Ecu 33bn.

The member-states most affected by the general decline in world trade flows were the UK (exports down 18 per cent), Spain (down 26 per cent), Greece (down 28 per cent) and Portugal (down 21 per cent).

India smelter order goes to Davy McKee

By John Elliott in New Delhi

DAVY MCKEE of the US has been awarded a £16m, lead and zinc smelter design contract by India's government-owned *Hindstan Zinc Limited.*

This is the first of a series of contracts for construction of an aluminium smelter which the UK Government has agreed to finance with grants totalling £73.65m.

Britain has beaten potential competitors for the work from Canada and Japan whose governments were not prepared to match the UK offers of aid.

Dragon Airlines wins route to Malaysia

BY DAVID DODWELL IN HONG KONG

HONGKONG Dragon Airlines *yesterday* won a licence from the territory's Air Traffic Licensing Authority (ATLA) to operate services to Johore Bharu in Malaysia.

This modest sweetener came after Atla first dismissed its objections to applications from Cathay Pacific Airways to add Toronto to five other North American destinations, and then rejected its bid to replace Cathay on routes to Kota Kinabalu in Sabah, and Penang, north of Kuala Lumpur.

Dragonair has now won licences to operate services to *34 routes around Asia, most of* which are secondary cities inside *mainland China*. However, slow progress in air traffic right negotiations between Britain's Department of Transport and governments in Asia where Dragonair has been granted licences, means that most of its services are still *ad hoc* charters.

The fledgling carrier has acknowledged that operating losses amount to about HK$4m a month.

Reagan to give live TV press conference

By Lionel Barber in Washington

PRESIDENT Ronald Reagan *will emerge from four months* of semi-isolation tomorrow to give a televised live news conference which will be seen as a test of his recent *attempts to restore his authority* and political credibility.

The *76-year-old* President has enjoyed a minor renaissance since Mr Donald Regan, his abrasive Chief of Staff, resigned last month to be replaced by the much *milder* Mr Howard Baker.

Tomorrow Mr Reagan can expect to face a barrage of questions about his knowledge and role in the Iran arms scandal. His performance in his last live news conference on November 19 was unconvincing.

The White House decision to push Mr Reagan in front of the cameras reflects a victory for Mr Baker who has argued that it is vital to show the American *public that* the President is fully recovered from his prostate surgery in January and ready to take the initiative in his final two years *in office*.

Some White House officials had cautioned that Mr Reagan's faulty memory would be savaged by reporters and that this could create the opposite impression in front of television viewers.

The *President's* news conference could take on a fresh edge if, as seems likely, the two congressional select committees investigating the Iran *scandal offer immunity today* to Rear Admiral John Poindexter, Mr Reagan's former National Security Adviser and a key witness

Mr Reagan will be closely questioned about whether he knew or approved of the *clandestine activities* of Mr Poindexter and Lt Col Oliver North in diverting profits from US arms sales to the Nicaraguan Contra rebels.

Despite the attention on the news conference, there are other substantive issues facing the President such as the appointment of a new FBI director to *replace* Mr William Webster who is to take *over* running the Central Intelligence Agency.

Mr Reagan must also decide, along with Mr Baker, whether to hold a budget conference *with* congressional leaders

Lionel Barber in Washington follows the trail of corruption from a New York suburb all the way to Capitol Hill

The rise and fall of an Hispanic hero in a Bronx slum

IN March 1984, Mr Ronald *Reagan, campaigning for* a second term in the White House, heralded a tool-and-die maker of Puerto Rican descent from the South Bronx, New York, as "a hero *for the 1980s*."

Three years later, the tool-and-die maker, Mr John Mariotta, and his company, the Wedtech Corporation, a New York Stock Exchange-quoted defence contractor with $100m annual sales, are caught in a web of corruption which runs all the way from the Bronx to Washington DC.

This month, *four former Wedtech* executives pleaded guilty to conspiracy to bribe New York City, New York State and *Federal officials* and to offering illegal inducements to members of Congress and US Government officials. At least two US Congressmen face indictments, one of President Reagan's former top political advisers is being investigated by a federal special prosecutor and the first stirrings of a *presidential election campaign* theme for 1988 are in the air.

The Wedtech story begins in October 1977 when President Jimmy Carter came to Charlotte Street in the South Bronx. The area was America's best-*known slum. The shops* were either boarded up or vandalised, the evidence of arson pervasive. The original Irish, Italian, and Jewish settlers had either moved out earlier or were dying off: the blacks and Puerto Ricans were trapped in an impoverished local economy.

One person who stayed was John Mariotta. After three business failures he set up a machine shop in a garage near Yankee *Stadium, eking out a* small profit and waiting, Micawber-like, for something better to turn up. President Carter's desire to make Char*lotte Street the cornerstone of* his inner-cities programme sent a signal that Washington was prepared to pump Federal money into the area. When *Mr Reagan followed Mr Carter* into the Bronx during a 1980 campaign trip, the message of hope took on new conviction.

Mr Mariotta's can-do spirit, his *anti-welfare rhetoric* and his Hispanic background caught the attention of some of those who followed Mr Reagan into the White House. Soon he found *himself* invited to meeting in Washington with Hispanic political leaders and middle ranking Reagan Administration officials. He learnt the *value of political contacts* and, in 1982, he even attended a group meeting with the President.

At this time Wedtech went by the *name of* Welbilt Electronic Die Corporation and the company was involved in bidding to supply horsepower generator engines to the US army. The contract, worth up to $30m, was bigger than anything else Welbilt had won. It represented a *short cut to* rich pickings in the defence business which was dominated by the big American contractors but about to enjoy explosive growth under President Reagan's rearmament programme.

Since 1975 Welbilt sought to win Federal contracts by submitting tenders under section 8A of the Small Business Act.

This clause is unique in its breadth since it allows the Small Business Administration *to take on government contracts* and then to sub-contract them to ethnic minority companies on a no-bid basis.

For a small company like Wedtech, section 8A offered a chance for a hearing in Washington, and the prospect of a steady flow of government business. But its first bid to the *US army was rejected as far* too high.

Faced with a towering bureaucracy at the Pentagon, the company turned to its network of political contacts which included two Californians, one of whom was Mr Robert Wallach, *a lawyer and good* friend *of* Mr Edwin Meese, then one of the President's closest advisers at the White House with the title of "counsellor."

Mr Wallach has conceded that he took on legal work for Welbilt, but denies any impropriety. Mr Meese, in *testimony* to the Senate judiciary committee this month, said he had discussed Welbilt with Mr Wallach "on a few occasions."

A *more direct contact for* Welbilt was Mr Lyn Nofziger, one of Mr Reagan's political advisers at the White House. Mr Nofziger left the Administration in January 1982—one year after Mr Reagan moved into the Oval Office—set up his own public relations partnership and took *on* Welbilt as one of his clients.

Shortly after a key White House meeting in May 1982, presided over by Mr James Jenkins, one of Mr Meese's deputies, Mr Nofziger, wrote to his former colleague asking for a letter of intent from the US army on the engine contract. He got the order.

Mr Nofziger is now the subject of an investigation by a special prosecutor. Federal law prohibits former government officials from lobbying their agencies for one year after leaving office. Mr Nofziger—who through his lawyer has welcomed the appointment of a special prosecutor—is now the second senior adviser to the President to be undergoing this *form of investigation*. The other is Mr *Michael* Deaver—who set up a high-powered lobbying company in Washington

The army contract transformed Welbilt's fortunes. In August 1983 the company went public. Stock which had been given earlier to Mr Wallach (for his legal work), and Mr Nofziger (for his lobbying efforts) rose dramatically in value to $400,000 and $700,000 respectively.

But the dramatic switch in fortunes created a problem: going public meant that Mr Mariotta—the co-founder of the business with the ethnic minority background—no longer had a controlling interest in the *company, now* rechristened Wedtech. That in turn meant that Wedtech no longer qualified for non-competitive contracts under the section 8A programme.

A complex share deal was arranged *whereby one third of* the company's shares were reshuffled back to Mr Mariotta, who agreed to pay for the shares at a later date. The SBA *questioned whether* Mr Mariotta could still qualify as an "economically deprived" businessman, but approved the deal nonetheless. Wedtech continued *to draw the primary* source of its income from the section 8A programme and to be a prime beneficiary.

Throughout its period of growth between 1975 and 1985, when it won more than $500m of contracts under the section 8A programme, Wedtech assiduously cultivated key figures in the local political establishment.

This week, Congressman Mario Biaggi of New York, along with the 80-year-old for*mer Democrat leader* of Brooklyn, were both indicted on unrelated corruption charges.

It was Wedtech's misfortune to lock into the Democrat Party *machine in the* Bronx just as the party was about to confront the greatest threat to its existence for 20 years: a wide-ranging federal, state and local police investigation *into* corruption led by Mr Rudolph Guiliani, the US attorney in New York

This month, Mr *Guiliani*, aided by the Manhattan district attorney and the Bronx district attorney, achieved a major breakthrough in the Wedtech investigation, persuading four former executives to plead guilty to bribery and fraud offences. In return the four have agreed to give evidence against other, so far unnamed, politicians

A taste of what *is* about to come appeared during the brief court hearing last month. One of the defendants, admitting that he bribed officials with *goods* and money, added that he and his colleagues had to offer the bribes in order to continue to win contracts. "Basically, Wedtech depended on government contracts for its existence," he said. Last week Mr Stanley Friedman, once the powerful leader of the Bronx Democratic Party, was sentenced to 12 years in prison on a racketeering conviction, and two other leading Democrats resigned office.

Mr Mariotta has yet to be charged with any offences and he has declined to be interviewed.

The smooth exit of government officials into the private sector may well be reviewed by Congress as the Wedtech scandal unfolds. So too will the SBA's 8a programme which gives ethnic minority business around $8bn of government contracts a year.

Wedtech *itself* has filed for reorganisation under chapter 11 *bankruptcy laws; 1,500* people have lost their jobs

US current account deficit at record $140bn

BY LIONEL BARBER

THE US current account deficit in 1986 amounted to a record $140.57bn compared to a 1985 decit of $117.68bn, the Commerce Department reported yesterday.

The size of the current account deficit—the broadest measure of the nation's trade balance because it covers goods and services—*will intensify* pressure in Congress to take retaliatory action against countries with big trade surpluses with the US such as Japan.

The Commerce Department has recently expressed renewed *dissatisfaction* with Japan over its apparent reluctance to open *its markets to US exporters* and tensions between the two is high on a range of issues from semiconductors to supercomputers.

But the strong yen took its toll on the Japan economy in 1986, with official figures showing that economic growth slowed to 2.5 per cent, down from 4.7 per cent in 1985. These figures could increase pressure on the Japanese Government to stimulate its domestic economy.

Last week, Mr Clayton Yeutter, the US Trade Representative, said: "The *frustration* with Japan is higher than I have ever seen it," and he warned that a presidential veto of a trade bill on Capitol Hill could become "irrelevant" if such legislation should pass overwhelmingly

The main reason for a record fourth quarter deficit for 1986—$36.84bn compared to a revised $35.29bn in the third quarter—*was a widening gap in the trade* of goods. The merchandise trade deficit in the fourth quarter was $38.4bn, up from $37.1bn in the third quarter.

The powerful House Ways and Means Committee is expected to begin work on legislation this week to present its bill—which has dropped most of the overtly protectionist elements in last year's House trade bill—for a vote on the floor in April.

A measure of capital *flows* contained in the Commerce Department report shows a net inflow of foreign assets into the US in the fourth quarter of *$59.63bn, compared* with a $69.52bn inflow in the previous quarter.

Building contractors, enjoying the unseasonally warm weather in February, notched up the biggest increase in the *starting rate for single-family* homes in three years

Contras blast pylon in Managua

BY PETER FORD IN MANAGUA

ANTI-SANDINISTA rebels blew up an electricity pylon in the capital before dawn on Monday, government officials *said*, but the explosion failed to bring the structure down.

The Nicaraguan Interior Ministry called the incident "no more than a desperate attempt by the North American Administration *and its mercenaries in* the face of their political and military defeat."

The attack marks the first action by the Contras in Managua since they bombed the airport in 1983, and indicates that *they have managed to establish* some *sort* of fifth column, despite State *Security* efforts to crush such an organisation.

That the explosion only damaged the plyon and caused no power cut or casualties, however, suggests *that the Contra* team had limited sabotage skills.

Perhaps more significantly, though, residents of the working *class neighbourhood* where the explosion occurred said no one had been on guard

Local Sandinista defence committees, known as "the eyes and ears of the revolution," are supposed to organise nightly "*revolutionary* vigilance" patrols throughout the capital. The committees, however, have lost much of their popularity in *recent* years, the government officials acknowledge.

State Security police, armed with sweeping powers under a 1985 *state* of emergency decree, have concentrated on preventing the *emergence of an* "internal front." Contra leaders have said one of their main goals was to set up such a network.

An estimated 7,000 Contra guerrillas have entered Nicaragua from Honduran base camps in the past three months.

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APPOINTMENTS

Grampian TV chief executive

GRAMPIAN TELEVISION has designated Mr Donald H. Waters as the company's new chief executive. The appointment becomes effective on the retiral in November of Mr Alex Mair, who has been with Grampian since its opening in 1961, first as company secretary, and for the past 17 years as chief executive. Mr Waters is Grampian's finance director. He joined in 1975 as company secretary. He became a board member in 1979 and is a director of Moray Firth Radio and Grampian subsidiaries Blenheim Travel and Glenburnie Properties.

★

Mr Norman Holden has been appointed European regional director for THOMAS COOK FINANCIAL SERVICES. He was previously with the Standard Chartered Bank holding posts both in this country and abroad.

★

Mr Terry Murray has become managing director of MITCHELL SHACKLETON & CO, a subsidiary of National Forge Co, of Irvine, Pennsylfivania, US. He was a director and general manager of NEI-APE Crossley Engines, Manchester.

★

Mr R. A. Lawson will be joining VINTEN GROUP as group managing director. He is currently with R. S. Components, a subsidiary of Electrocomponents, where he has been sales director since 1979. Mr Lawson will succeed Mr Michael James who has recntly stepped down from that office.

★

Mr John Johnstone has been appointed to the board of INITIAL as group finance director. He was previously group comptroller. Mr Nigel Ash has been promoted to Mr Johnstone's previous post with Mr David Lindsay becoming group accountant.

★

LOW & BONAR has appointed Mr Walter L. Telfer to the new

Mr Walter Telfer, deputy group chief executive, Low & Bonar

post of deputy group chief executive, while remaining group finance director. He was appointed to the parent board as group finance director in February 1982, having joined the group in September 1975. Mr Telfer is also a director of Low & Bonar UK, Bonar Inc (the company's Toronto Stock Exchange publicly quoted subsidiary), A. T. Mays Group and a number of other companies. Following this move, Mr Norman D. McLeod is promoted to deputy group finance director, and also joins the board of Low & Bonar UK. He joined the group in September 1977 and, prior to becoming group financial controller in January 1985, he was finance director of Bonar Long.

★

Mr W. R. Parsons has been appointed managing director of MERCHANT INVESTORS ASSURANCE. He has been general manager since March 1984. The previous incumbent, Mr J. M. Souness, remains a director and also becomes chairman.

★

ROYAL TRUST BANK has appointed Mr Michael P. Townsley as divisional director with responsibility for property finance. He joined from the State Bank of South Australia.

★

CITIBANK LONDON'S financial institutions group has appointed Mr Stafford Crane as senior banker for insurance banking in Europe. Mr Peter Hayes will assume responsibility for the insurance banking division in London.

★

Mr David Hudd has been appointed chairman and chief executive of INOCO. He is non-executive chairman of the Kunick Leisure Group and was until recently chief executive of the company.

★

Mr Roger M. Phillips is to be managing director of LEYLAND DAF MARKETING & SALES ORGANISATION from April. Mr Ian Jones has become truck sales director.

★

Mr R. C. (Dick) Pemberton and Mr John R. Smith have been appointed directors of TAYLOR WOODROW ENERGY. Mr Peter Jordan becomes a divisional director. Mr Pemberton is deputy

Mr Donald Waters, who is to become chief executive of Grampian TV in November

managing director of Taylor Woodrow Offshore. Mr Smith is a divisional director of Taylor Woodrow Energy. Mr Jordan was appointed a director of Seaforth Martime in 1983 and managing director of Floatech, which is jointly owned by Taylor Woodrow Construction and Seaforth Maritime, on its inception in 1985.

★

THE MINSTER INSURANCE GROUP has appointed Mr David Pocock as UK general manager

Mr David Pocock, chief motor manager, Minster Insurance Group

and chief motor manager. He joined in 1984 as group motor manager and became group assistant general manager in 1986.

Rivalry for air services from Gatwick grows

BY LYNTON MCLAIN

COMPETITION for scheduled air services in Europe intensified this week with hearings at the Civil Aviation Authority into applications by British Caledonian Airways and Air Europe. Both want to increase services from Gatwick, south of London.

The fight for routes comes as the European Commission in Brussels is set to consider, possibly today, taking legal action against Lufthansa and other European airlines for possible breaches of its competition rules.

Air Europe, which began as a charter airline, wants to start 11 new scheduled services: to Amsterdam, Brussels, Copenhagen, Düsseldorf, Frankfurt, Munich, Geneva, Zurich, Milan, Rome and Paris.

Mr Harry Goodman, chairman of Air Europe and International Leisure Group, its parent company, said in giving Air Europe's evidence: "In European aviation, there is too little access, to little competition and too high fares."

The airline signed a lease agreement last week, subject to financing, for five Boeing 757-200 and five Boeing 737-400, valued at a total of $375m.

BCal, the main scheduled airline at Gatwick, wants to start five new low-fare routes to Athens, Copenhagen, Oslo, Rome and Stockholm. They would be operated on the basis of seats allocated partly for charter and partly for scheduled passengers.

BCal is anxious to win all the proposed routes, but its big target is Scandinavia.

A number of economy class seats would be marketed to tour operators, at fares BCal said would be competitive with charter rates.

Air Europe says its plans are in line with the Government's airline competition policy, which encourages new entrants to start new services.

BCal is opposing the applications by Air Europe, and Air Europe is opposing the BCal applications. Other airlines, including British Airways, British Island Airways, Connectair and Dan Air are also opposing routes proposed by both airlines.

BCal said its opposition was partly aimed at curtailing further congestion at Gatwick.

Air Europe and BCal both want to offer low fares on their proposed routes.

Barclays to set up fund for buy-outs

By Charles Batchelor

BARCLAYS DE ZOETE WEDD, the securities arm of Barclays Bank, plans to establish a £20m-£30m fund to finance management buy-outs. The fund will take the form of a unit trust and will be wound up after 11 years at the most.

The Barclays de Zoete Wedd Buy-Out Trust, which is based in Jersey, is the latest in a series of funds specialised in enabling managements to buy their company from the parent group. Over the past few years several large buy-out funds have been launched, including the £260m Electra Candover Direct Investment Plan and the £100m Charterhouse Development Capital Fund.

The new Barclays trust intends to invest amounts of between £500,000 and £4.5m in buy-outs, with a total value of between £5m and £50m. Investment adviser to the fund will be Barclays Development Capital, which intends to invest on its own account in buy-outs financed by the trust.

The new trust will mean Barclays Development Capital will be able to share the risk of buy-outs it backs with other investors and that it can respond quickly to proposals put to it.

Bond Corporation plans £30m satellite broadcasting stake

BY RAYMOND SNODDY

THE BOND Corporation of Australia has reached agreement in principle to invest £30m in Britain's direct broadcasting by satellite (DBS) project.

The investment will mean that Mr Alan Bond, the Australian businessman whose interests range from brewing to broadcasting will probably be one of the largest single investors in the venture.

The five founder shareholders in British Satellite Broadcasting (BSB) have already committed £80m and are now in the process of raising a further £120m by the end of April so that contracts for satellite manufacture can be signed.

Mr Bond, who was a member of one of the unsuccessful consortia which applied to the Independent Broadcasting Authority for the national three channel DBS franchise is likely to be the only Australian businessman able to join BSB.

Mr Derek Lewis, finance director of the Granada group, which put together the BSB consortium said yesterday that negotiations were now going on with "a core of six to eight serious potential investors."

"If they all come through there will be more than enough to meet the £120m," Mr Lewis said. About half are from the UK and major companies from the US and Europe are also expressing interest.

Mr Lewis said that "more than one" of the original investors – Granada, Pearson (owners of the Financial Times), Virgin, Amstrad Consumer Electronics and Anglia Television – was interested in increasing its stake. The total cost of the project is likely to be £600m.

Mr Lewis believes that at least letters of intent to cover the £120m will be signed by the end of next month. The rivals for the satellite contract, which will be in excess of £100m, have been narrowed down to three companies which have met BSB's conditions. Negotiations are now concentrating on price.

The three companies with "live" offers include British Aerospace and Comsat, the US satellite organisation which has two "substantially complete" satellites for sale after the collapse of plans for a DBS service in the US.

Comsat satellite, despite the need for modifications might be best able to meet BSB's desire to launch both a satellite and a broadcasting service in 1989.

Murdoch media group 'leads world'

MR RUPERT MURDOCH'S News Corporation has become "the most dynamic media enterprise in the world," stockbroker Kleinwort Grieveson Securities argues in a new study.

"There is a definite trend there of acquiring undervalued properties, turning them around and doing good deals "Mr Luke Johnson, media analyst at Kleinwort, says.

Kleinwort estimates that News Corporation's pre-tax profits of £181m in the year to June 1986 will rise to £320m by 1988.

The recent acquisition of the Herald and Weekly Times group end simultaneous disposal of electronic media assets in Australia gave News Corporation an overwhelming dominance of the Australian newspaper industry. There were now "major opportunities to benefit from rationalisation and economies of scale" Kleinwort believes.

In Britain, Mr Murdoch's News International, Publisher of The Times, Sunday Times, Sun and News of the World, had benefitted more than any other participant from the Fleet Street revolution. Earnings per share from the UK operations were up 22 per cent in the year to December 1986 and the prospect of Sun and News of the World cover price increases would bring further improvements in margins.

Super Channel seen in half Europe's cable TV homes

BY RAYMOND SNODDY

SUPER CHANNEL, the 24-hour British satellite television channel, is being watched in more than half the 7.4m cable television homes in Europe in which it is available.

The viewing figures – produced by Research Services after a telephone survey – have been achieved despite substantial changes to planned schedules because individual members of Equity, the actor's union, failed to agree to release of programmes.

Super Channel is funded by all Britain's TV companies, apart from Thames Television, and the Virgin Group. The BBC has also agreed to supply programmes for the channel, although it is not an equity investor.

Problems with Equity union members withholding consent for transmission have mainly affected BBC programmes.

Mr Richard Hooper, joint managing director of Super Channel, said yesterday that more consents from Equity union members were beginning to come in. In April, the schedules would be 85 per cent to 90 per cent complete and by May there would be very little difference between the planned schedules and what was actually transmitted.

The BBC alone has sent out 7,500 letters to actors asking for permission for programmes to be broadcast by Super Channel.

The channel's weekly viewing figure of 52 per cent compares with 59 per cent for Sky, Mr Rupert Murdoch's general entertainment channel.

In the Netherlands, Super Channel's biggest market with 2.7m homes, 63 per cent of cabled homes had watched the channel. In Scandinavia the figure was 55 per cent, in Belgium 51 per cent and in West Germany, where there is traditional opposition to foreign television, Super Channel has achieved a weekly viewing figure of 38 per cent.

Awareness of the channel, launched in January, has also been rising sharply. In the Netherlands, awareness rose from 10 per cent two weeks before launch to 88 per cent two weeks after and in Scandinavia awareness has grown from 52 per cent to 92 per cent.

"We are very happy with the progress made so far," Mr Hooper said yesterday.

● The operations of Premiere and Home Video Channel, both film channels for cable television, are to be merged and British Telecom will join the new partnership. Heads of agreement have been signed and the full agreement is expected to be concluded soon.

In the new partnership, Mirror Group Newspapers and BT Vision will each have 30 per cent of the equity. The other existing Premiere shareholders – 20th Century Fox, Columbia Pictures, Home Box Office and Showtime – the Movie Channel – will each hold 10 per cent.

Peat Marwick to merge with Nolan Norton

BY RALPH ATKINS

PEAT MARWICK International, the accountancy and management consultancy group, is merging with Nolan Norton, the fast-growing US information technology consultants.

The merger comes two weeks before Peat Marwick completes its merger with Klynveld Main Goerdeler, which will make it the largest accountancy group in the world. Nolan Norton will increase its UK revenue from consultancy work by about 10 per cent.

Nolan Norton, based in Boston, was formed in 1974. It specialises in strategic uses of information technology. The group has 18 consultants based in London, eight in Italy and 89 in the US.

In the year to February it had a gross professional fee income of £13.3m. "It is a significant addition in term of the way we offer services and also it brings skills that we need more of and that are perceived by our clients to be important," said Mr Guido Castro, lead partner for Peat Marwick's information systems division.

Nolan Norton also brings an image respected worldwide and experience in training information technology consultants. In the US its clients include 40 per cent of Fortune 100 companies.

The group will operate as part of the Information Services division of Peat Marwick. After merging, the division will employ 1400 professionals world-wide with 290 in the UK. Last year Peat Marwick had a management consultancy fee income of £22.5m in the UK.

For Nolan Norton, the merger gives the opportunity to sell its skills using Peat Marwick's network of offices in 110 countries.

Jobs shed by Cambridge Electronic

By Philip Coggan

CAMBRIDGE Electronic Industries (CEI), the group floated off from Philips in 1981, has shed 300 jobs in a rationalisation programme. The news was announced with the group's preliminary results which revealed full year pre-tax profits down from £10.3m to £10.1m.

CEI, which is involved particularly in printed circuit boards and in electronic components, blamed the job losses on difficult market conditions.

Most employees laid off were middle managers in supervisory roles, it said, but some younger managers – around 35 so far – will be brought in to prepare the group for any upturn in the market.

CEI employs around 4,300 people in the UK and 4,800 worldwide.

January dip in output blamed on cold weather

BY PHILIP STEPHENS, ECONOMICS CORRESPONDENT

BRITAIN'S manufacturing output dipped sharply in January, but government statisticians blamed the fall on the cold weather and said that the underlying trend was still upwards.

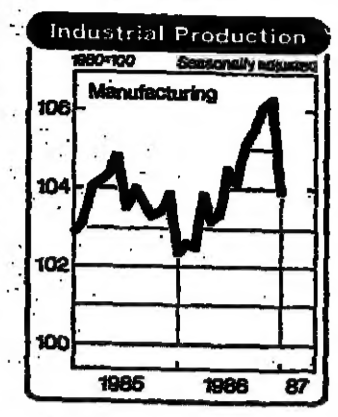
The Central Statistical Office (CSO) said that its index of manufacturing production fell by 2.2 per cent in January. For the latest three months taken together output was ½ per cent higher than in the previous three months and 2 per cent above the same period a year earlier.

The CSO's statisticians, however, said that they expected the January figure to turn out to be an aberation and for manufacturing production to have resumed its rise in February. They estimate that the underlying growth rate remains around the annual 3 per cent seen since the spring of 1986.

Mr Nigel Lawson, the Chancellor of the Exchequer, echoed that view in yesterday's budget when he predicted that buoyant exports would give a sizeable boost to manufacturing output this year.

Around two-thirds of the drop in production during January was accounted for by a downturn in three industries – metal manufacturing; other minerals products, typically those used for construction; and chemicals.

The statistician said that all three would have been affected by the difficulties for workers in getting to work caused by the freezing weather and snow, while many building materials plants had open-air operations. The chemicals industry suffered a sharp decline in exports, which may in part be attributable to transport difficulties.



Overall industrial production rose fractionally in January as North Sea oil output recovered from the depressed level of December and the cold weather boosted consumption. In the three months to January, however, industrial output was around ½ per cent lower than in the previous three months.

The index of manufacturing production stood at 103.9 (1980 100) in January against 106.3 in December, while that for the production industries was at 109.8 compared to 109.4.

GOVERNMENT BORROWING ONLY £100M OVER 11 MONTHS

Finances yet again in surplus

BY JANET BUSH

THE GOVERNMENT'S finances were yet again in surplus in February, leaving borrowing at almost nil after 11 months of the current financial year.

Yesterday's figures were released only before Mr Nigel Lawson, the Chancellor of the Exchequer, stood up to deliver his budget.

Mr Lawson's new target for borrowing in 1987-88 compares with the £7bn projection pencilled into the last version of the Medium Term Financial Strategy.

Yesterday's figures showed that there was a £340m net repayment of government borrowing last month, giving a cumulative borrowing requirement of only £100m over the first 11 months of the current year.

At the same time last year, the cumulative borrowing requirement was £2.7bn and the full year Public Sector Borrowing Requirement (PSBR) turned out at £5.8bn. Included in February's data was about £420m from the first call on British Airways shares.

The Chancellor yesterday forecast that this year's PSBR would turn out at around £4bn, substantially undershooting his £7bn target.

Treasury officials said that the Chancellor had taken full account of yesterday's PSBR data for February in his forecast for the full-year outturn and in his overall budget judgement.

They noted that March is traditionally a month of high spending. The borrowing requirement in March this year is expected to be inflated by substantially lower than normal receipts of Petroleum Revenue Tax.

In addition, borrowing will be boosted by a £680m support package for the Rover Car group as foreshadowed in January's Public Expenditure white paper (policy document).

These factors will, however, be balanced to some extent by the receipt of the first instalment of British Gas debt of £750m, which comes in March.

The effect of a change in the timing of payments by building societies of composite rate tax is not expected to effect the PSBR in March. These payments are now spread throughout the year, rather than being bunched in to the last quarter of the year, a change which to some extent depressed tax receipts in January and February

The treasury said Inland Revenue receipts in the first 11 months of the current year were £1.8bn, or 3½ per cent higher than a year ealier, while Customs and Excise receipts were £3.5bn, or 10½ per cent higher.

Treasury lifts Civil Service wage offers

BY DAVID BRINDLE, LABOUR CORRESPONDENT

THE TREASURY yesterday made improved pay offers to most civil servants in the hope of averting the threat of selective strikes from the start of next month.

The main feature of the offers is a relatively high flat-rate increase for younger lower-paid staff, concentrated in the Department of Health and Social Security and the Employment Department, who would provide the backbone of any strike campaign.

There is also a higher rise for the Society of Civil and Public Servants (SCPS), the union representing middle-management grades and key senior computer staff who would hold the most disruptive strikes.

Fragmentation of the Civil Service pay negotiations this year makes it difficult to make a general assessment of the worth of the offers. One union, the Institution of Professional Civil Servants, has already reached provisional agreement on a radical long-term deal linked to greater pay flexibility.

It is clear, however, that the improved offers – likely to be described as final when the Treasury announces them formally – represent an increase of at least 5 per cent in the pay bill.

The main offer, to four unions representing more than 300,000 civil servants, stood previously at 4 per cent, or £4.50 a week, whichever is the greater. This is believed to have been improved to at least £5.75 a week – a rise in excess of 5 per cent for the lowest administrative assistant grade.

The higher offer to the SCPS is thought to be worth an extra 2 per cent, representing restoration of the union's differentials after they were eroded last year by to the technology deal awarded the lower-grade Civil and Public Services Association.

The varying nature of the offers is certain to put the four-union consortium under strain.

Teachers reject call for half-day strike over imposed deal

BY HELEN HAGUE, LABOUR STAFF

MEMBERS OF the third-largest teachers' union in England and Wales have rejected their leaders' call for a half-day strike in protest at government moves to impose a pay and conditions settlement and abolish direct pay bargaining.

The Assistant Masters and Mistresses Association announced yesterday that its members in state schools had rejected strike action by 58.3 per cent to 42.1 per cent.

The union's 75-member executive had recommended national strike action for the first time in its history. During the previous two years of the pay dispute, the union had taken only limited disruptive sanctions.

The two main teaching unions, the National Union of Teachers and the National Association of Schoolmasters/Union of Women Teachers have already embarked on a series of half-day protest strikes and are expected to announce further selective action today.

Welcoming the AMMA vote as a "sensible decision", Mr Kenneth Baker, the Education Secretary, seized on the opportunity to urge leaders of the two largest teaching unions to "rethink their tactics" and "not take it out on the children".

The AMMA ballot attracted a 72.6 turnout, with 35,617 members voting against strike action and 26,632 for. Announcing the result, Mr Frank Groarke, the union's president, said it did not mean that members accepted the Government's removal of their negotiating rights.

"It shows that a majority reject industrial action as the most effective way to register protest. Children are put in the crossfire, public opinion and parental support are alienated, politicians capitalise from the resulting chaos."

However, he warned that even teachers opposed to industrial action could be tempted to operate a strict work-to-rule unless Mr Baker publishes plans for new negotiating machinery as soon as possible.

"Teachers who react in that way to the Government's stance will be working to the very rule Mr Baker has himself imposed," said Mr Groarke.

In the wake of the ballot rebuff, AMMA is to launch a £50,000 press advertising campaign to encourage parents to support teachers' opposition to Mr Baker's package.

Shortage of staff in electronics 'growing'

By Terry Dodsworth

THE SHORTAGE of skilled staff in the UK electronics industry is growing worse, according to a survey which also suggests that employment in the sector is expanding.

The survey, commissioned by Cawners Exhibitions, the organisers of the electronics exhibitions Internepcon, and Electronic Production magazine, says that only 10 per cent of the 454 companies which took part feel that the recruitment situation in the industry is improving. More than a third believe it has become more difficult.

Particular difficulties exist in recruiting design and production engineers, and it is hard to find test engineers and skilled operators. Only semi-skilled staff are easy to recruit, it says.

To cope with the skills shortage, almost half of the companies surveyed have increased their in-house training. In part, they appear to be gearing up for expansion: about 45 per cent of the companies sampled said that they should be able to offer more jobs over the next year, largely because of an expected upturn in sales and orders.

■ Logica, a British computer company, has been put in charge of a £500,000 contract from the European Space Agency (ESA) to work out software techniques related to a proposed manned space station.

The contract, to be shared by Logica and a group of other European companies, concerns programs required for the operation of Columbus, a £1.3bn orbiting laboratory which ESA plans for the mid 1990s.

Logica's space and defence systems division will be responsible for about £300,000 worth of work under the contract, with Messerschmitt-Bölkow-Blohm of West Germany, CRI of Denmark and Sweden's Saab sharing in the studies.

Logica says that, with the new contract, it is responsible for about £1m worth of work related to the Columbus development. The studies concern the software needed to run computerised equipment proposed for the laboratory, together with data processing techniques needed for radio transmissions to and from Earth.

Gene may give pesticide

By David Fishlock

A BUILT-IN pesticide to protect major food crops such as cereals against predators is within grasp, claims Agricultural Genetics Company, the Cambridge research company specialising in genetic engineering of plants.

The company, set up with government and private backing to exploit British innovation in plant science, has shown how one particular gene can confer a broad spectrum of resistance to major insect pests.

The gene is responsible for manufacture of an enzyme inhibitor which interferes with the digestive processes of insect larvae. It was originally isolated by scientists at Durham University, in north-east England.

AGC is now seeking industrial partners with the genetic engineering skills to attempt transfer the gene to such crops as maize, cotton and rice,

Guinness shareholder group calls meeting

A GROUP of Guinness shareholders has called a meeting for March 24. The group says that although much has been done by the drinks company's new management, there remain matters to be clarified and resolved.

The meeting will take place at the Great Eastern Hotel, in the City of London. It has been called by Mr Irving Scott and six other shareholders after the formation of the Guinness Shareholders' Association in London on March 12.

Mr Scott had previously sought support for an extraordinary general meeting. The group said the formation of an association would help prevent events similar to the controversial share support operation mounted in last year's bid for Distillers, the scotch whisky group recurring in future.

The group said that Guinness was aware of the meeting, but had not indicated whether it would be represented by an official observer.

■ ALLEGATIONS over share buying in to helicopter company Westland, before last year's deal with the US Sikorsky group are not to be investigated. The Government rejected a call for an inquiry by Mr Tam Dalyell, the Labour MP. It has been claimed that groups backing the deal had co-operated to buy shares beforehand, and Mr Dalyell asked trade and industry ministers in a House of Commons written question to appoint inspectors "to examine allegations of a concert party" in 1985-86.

Mr Michael Howard, Trade Minister, replied that the Government last year decided not to appoint inspectors to investigate membership of Westland. "No new information has become available since that time which would necessitate a review of that decision," he said.

■ CONNAUGHT Rooms, one of London's best-known banqueting and conference complexes, is being sold for £2.8m to Friendly Hotels by Scotts Restaurants.

■ FIAT has raised its car prices in the UK by an average of 3.7 per cent. But there will be no change in the price of the Fiat 126, Britain's least-expensive new car at £2,431.

The Polish-built Fiat 126 last went up in price in March last year. Other Fiat car prices were last increased six months ago by an average of 4.5 per cent.

■ UNOFFICIAL stoppages in the coal industry – known as "rag outs" – are running at two thirds the rate of before the 1984 miners' strike, and 80 per cent occur in the Yorkshire coalfield, Sir Robert Haslam, British Coal chairman, said.

As a result of these actions 1m tonnes of output had been lost. Since Christmas alone, there had been six stoppages in protest against colliery visits by members of Parliament.

■ TRUSTHOUSE Forte, the hotels and catering group, is to introduce a range of English wines at its 230 UK hotels.

Sales of English wine have expanded in the last 10 years and local products are now stocked by several major supermarkets and have been exported as far as Japan.

Wines from six English vineyards were chosen by Trusthouse Forte at a tasting of more than 20 different wines organised earlier this year.

FT LAW REPORTS

Bank to gain possession of dry rot house

CITIBANK TRUST v AYIVOR AND ANOTHER

Chancery Division: Mr Justice Mervyn Davies: March 11 1987.

WHERE a bank has a right to possession of mortgaged property the court *cannot* stay delivery on the ground only that the mortgagor is counterclaiming against the bank in respect of its having allegedly misled him into buying defective property.

Mr Justice Mervyn Davies so held when allowing an appeal by Citibank Trust Ltd from *Master Gowers's decision to stay* a possession order made by him in favour of the bank against mortgagors, Mr and Mrs Bliss Billow Kodozo Ayivor.

Section 36 of the Administration of Justice Act 1970 provides: "(1) Where the mortgagee . . . claims possession . . . the court may . . if it appears that . . . the mortgagor is likely to be able within a reasonable period *to pay* any sums due . . . . (2) . . . stay . . . or postpone . . . posession. . . ."

HIS LORDSHIP said that Mr and Mrs Ayivor's *house* was charged by way of legal mortgage with repayment of a £38,000 loan made by Citibank. Repayment was to be over 24 years by instalments of £344 per month.

Mr and Mrs Avivor were in arrears with the instalments. Citibank claimed payment of the money due and possession. On February 10 1987 Master Gowers made an order for possession within 28 days, but the possession was qualified. During the six months from February 10 the order was not *to* be enforceable despite the arrears if the instalments were paid and a counterclaim was prosecuted.

Citibank appealed seeking an order for repayment and possession forthwith.

Mr and Mrs Ayivor admitted they were in arrears. They contended however that Citibank was liable to them for negligence or breach of warranty; and that the *damages* recoverable would extinguish the arrears. It was that contention which gave rise to the reference to a counterclaim in the Master's order.

The Ayivors' evidence was that they were informed Citibank would not make a mortgage offer prior to a survey of the house. It was therefore supposed that Citibank would only make an offer if the house was good security.

Mr Ayivor did not order any survey. In due course Citibank *made a mortgage offer* of £32,250 with £750 withheld pending specified repairs *relating* to the roof, arranging for damproof- and rot reports, front door glass and overhauling water disposal systems.

The *offer* was accepted and the Ayivors completed their purchase. They then instructed Hillcrest Timber Preservation to report on dampproofing and rot. The report indicated remedial treatment against dry rot was required *together with other* works, estimated at a total of £9,098.

It was clear from the report that the house was seriously affected by damp and timber decay, with the cost of remedial works amounting to more than a quarter of the money lent.

On receiving the report Mr Ayivor asked to see a copy of any *survey* received in connection with his purchase. It stated "rising damp and dry *rot were seen.*"

Mr Ayivor complained that *that disturbing feature of* the survey was not mentioned in the mortgage *offer*. He contended that he should have been informed of what was said about rising damp and dry rot, and that the effect of the retention clause in the *mortgage* offer was to indicate that there was no evidence of *either* defect.

He said that if Citibank had accurately set out the surveyor's finding in the mortgage *offer* he would not have proceeded with the purchase without first ascertaining that the problem identified by the *survey* was within *his means to rectify.*

Mr Ayivor was required to pay £55 to Citibank for the surveyor's report albeit that it was not put before him.

The Ayivors claimed £9,041 damages against Citibank in consequence of its having misled them into supposing that the house was free of rising *damp and timber rot.*

The court expressed no views as to the counterclaim, save to say that since Mr Ayivor was paying for the survey, one *would* have supposed that he would have been sent a copy.

The general rule was that a legal mortgagee had a right to possession of the mortgaged property. The cases showed that the existence of a counterclaim did not affect that right.

Section 36 of the Administration of Justice Act 1970 modified the rule by conferring a discretion on the court. The court was given certain powers. *But it might* exercise them only "if it appears to the court that in the event of its exercising the power the mortgagor is likely to be able within a reasonable period to pay any sums due under the mortgage . . ."

By section 8(1) of the Administration of Justice Act 1973 the court was not obliged, *when considering* the section 36 discretion, to regard the entire principal sum and interest as now due, although, under the mortgage terms, it was due by virtue of the default.

Section 8(2) of the 1973 Act required the court to have in mind not only the unpaid instalments already due, but also the instalments that would fall due during the "reasonable period" *contemplated in section* 36(1).

It was accepted that the Ayivors would be able to pay such instalments as they fell due. It seemed that payments had always been within Mr Ayivor's ability but he decided not to pay because he regarded himself as having a claim for non-disclosure of the surveyor's report.

Nevertheless, one had to turn to the question of arrears *of* 5,589. Mr King for the Ayivors proposed a total monthly payment of £300. The arrears would thus not be cleared off for 100 *months,* or eight-and-a-half years.

Mr King submitted that in exercising the section 36 discretion, the court was not confined to such calculation of time. He said account should be taken of the *following* considerations: (a) that Mrs Ayivor might from July nowards be able to add to the family income; (b) sale of the house before cure of the rot would result in a depressed price; (c) the principal sum owing was secured by endowment policy; (d) it would be right to allow time for a *sale* by the Ayivors, particularly since the plaintiff was a bank and the security was not depreciating; (e) the counterclaim might result in a substantial sum being owed by Citibank to the Ayivors within the next *year*.

As to (a) there was no evidence. Considerations (b) and *(c) could not* properly be taken into account in the context of section 36. As to (d), Lord Justice Browne said in *Royal Trust Co v Markham [1975] 1 WLR 1416 a stay* to enable a property to be sold "would only be done where there was clear evidence that a sale was going to take place in the near future and that *the price* would cover all the sums due to the mortgagee."

There was no evidence that there was in prospect any sale by the Ayivors. *Consequently* effect could not be given to consideration (d). To allow weight to (e) might nullify *or* circumvent the rule that the existence of a *counterclaim* did not prevent the mortgagee from obtaining possession. *The* wording of section 36 did not seem to impinge on that rule.

Existence of *the counterclaim* did not mean that the Ayivors were likely "to be able within a reasonable period" to pay off the arrear. Even if one assumed that their prospects of *success* on the counterclaim were good, that did *not justify the court* in concluding that the Ayivors were likely soon to reduce the arrears by paying *over* any damages they might recover.

On the evidence the mortgagors were not likely to be able to pay off their arrears *within any reasonable* period. It followed that the section 36 discretion might not be exercised in favour of the Ayivors. The appropriate order was an order for possession in 28 days.

The court made the order without any enthusiasm at all because it appeared the Ayivors were dismayed to have the dry rot disclosed to them, *after* they bought the house. Citibank allowed the purchase to go ahead and the mortgage to be executed without supplying the Ayivors with a *copy of the survey*, though requiring them to pay for it.

For Mr and Mrs Ayivor: Richard King (William Stockler & Co).

For the bank: John Davies (Charles Caplin & Co).

By Rachel Davies
Barrister

JOBS

What the sages advise on career directions

BY MICHAEL DIXON

"I'VE REACHED a crossroads in my career, and don't know which direction to take. Can you help?"

The reader who sent in that question last week is far from alone. To judge by the frequency with which such requests reach the Jobs column, a good many of you periodically find yourselves plumb disorientated in mid-working-life.

The sad fact is that in the circumstances there is little useful aid I can give. I might be able to do something if the need was for information on a particular kind of job or some similarly specific topic. But guidance on a whole career is leagues beyond my province.

Of course, I'm not proud of my helplessness in the matter. So having been reminded of it yet again, I have tried to find out what established authorities have to say about promising career directions. It turns out that some of them, at least, have definite advice to offer.

Take, for example, John Babsone Lane Soule. His suggestion, stated with every appearance of certainty in the Terre Haute Express of Indiana in 1851, was: "Go west, young man!"

While that is no doubt all very well as far as it goes, however, it is not of much use to the sender of the latest request for aid who happens to be a woman in her mid-30s

In her particular case, therefore, a better adviser might be Benjamin Disraeli, later Earl of Beaconsfield. What he said in his novel Tancred was: "The East is a career." And although that conflicts somewhat with the line recommended by Mr Soule, it does not necessarily mean the Earl was wrong on the question.

For instance, his view is supported by the accompanying table. It is compiled from a report published this morning by Inbucon Management Consultants on a survey made last autumn of the pay and perks of big companies' expatriate staff.

While most were British, I am told that fairly comparable conditions are enjoyed in the same countries by similarly ranked workers from other European nations and America.

Besides covering only 16 overseas countries, my table refers to just a single rank of staff. Anyone wanting more information should contact Inbucon's Nigel Harris at 197 Knightsbridge, London SW7 1RN; telephone 01-584 6171, telex 916533 Relcon G.

The rank the figures refer to is the one which would typically carry a gross salary of £25,000 in the United Kingdom. Assuming that the person concerned is married with two dependent children, tax and so on would reduce that sum to a net pay of £17,690 which of course would also be the UK "buying power"—as is shown at the top of the table.

Its subsequent lines indicate the pay and perks prevailing among people of the same rank working as expatriates in the other countries.

First comes their average net pay in sterling at the exchange rates of October 1 1986, followed by their average buying power at the local prices of the time. Then we see what percentage of the expatriates also received each of a range of handsome fringe benefits.

Country of residence	Net pay £	Buying power £	% of expatriate executives in each country whose perks included: Accommodation Free	Accommodation Aided	Costs of utilities	Company car	Domestic staff	Club fees	Help with education
UK	17,690	17,690	n/a	n/a	n/a	n/a	n/a	n/a	n/a
China*	35,864	49,331	100	—	100	60	—	—	100
Singapore	37,757	39,330	72	28	64	64	17	83	98
UA Emirates	42,036	37,101	85	15	70	70	13	46	100
Malaysia	32,196	36,964	64	36	36	61	12	79	97
Bahrain	41,306	36,690	100	—	70	57	22	54	100
Thailand	29,638	35,623	82	18	41	55	18	73	100
Japan	63,217	34,811	68	32	68	61	18	82	100
Saudi Arabia	36,500	34,762	100	—	81	85	10	21	98
Hong Kong	33,452	33,654	71	29	68	53	17	67	83
Indonesia	24,520	32,869	100	—	84	81	29	74	100
Oman	34,973	30,868	100	—	56	78	11	39	100
Kenya	22,836	29,017	98	2	86	79	45	67	100
Brazil	22,554	28,805	44	56	24	60	—	84	100
Australia	20,877	26,227	45	39	24	55	—	45	70
US, New York	30,810	25,568	51	40	42	33	4	47	80
South Africa	17,416	25,499	50	50	27	77	—	35	65

* Very small sample

It is quite clear that the Brits who took the eastward direction do far better than those who went west.

Even so, Disraeli was not necessarily right in calling the east a "career." For a career is surely something entailing not only rich rewards in any particular job, but also advancement—on which Psalm 75 says: "promotion cometh neither from the east, nor from the west; nor yet from the south." And while that still leaves the north open as a possibility, having come from that way myself, I wouldn't bank on it.

Bermuda

IT IS to be hoped that those cautionary words will be borne in mind by any readers tempted by the jobs being offered by recruiter Trevor James on behalf of companies he may not name.

Accordingly, like the other headhunter to be mentioned later, he promises to abide by any applicant's request not to be identified to the employer at this stage.

Two of the posts are with insurance concerns in Bermuda. The first is a US company wanting a non-marine underwriter with at least 10 years' front-line success in the work in London; tax-free salary about US$75,000. The second is a mutual insurance organisation seeking a proven investment manager with good knowledge of dollar investments to control its $2bn funds; salary $70,000 tax-free.

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Certainly, the person who joins our team will be a graduate, aged 23-30, and prepared to work exceptionally hard - and apply a great deal of initiative - in order to achieve maximum results. It is also vital that the person appointed is able to communicate ideas effectively to other members of the team.

Salary will be negotiated to reflect the importance we place on this position and will be supported by a full range of financial sector benefits. In addition we are offering the opportunity for you to develop your talents, and grow into fund management.

Interested applicants should send a full c.v. to: **Chris Wilson, Assistant Personnel Manager, Legal & General Investment Management Limited, Temple Court, 11 Queen Victoria Street, London EC4N 4TP.**

Legal & General

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Having had previous experience of trading/sales in an Austrian or German bank, your fluent written and spoken German should have earned you well-established contacts with German and Austrian institutions, as well as a knowledge and understanding of the current political and cultural climate.

You will preferably have an economics background with analytical and numerate skills and an additional European language.

Please send a full CV to Victoria Fielding,
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Applicants should write, enclosing a curriculum vitae to:

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To discuss this opportunity, telephone John Sears and Associates, Executive Recruitment Consultants, on 01-629 3532 or write with CV to Cavendish Court, 11/15 Wigmore Street, London W1H 9LB.

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The Bank Advisory Department services the Lloyds Bank branch network. It's brief is to respond to telephone enquiries and to provide a professional portfolio management service for branch customers.

A Registered Representative is required with experience of private client business gained with a stockbroking firm or similar investment institution.

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Lloyds Bank Stockbrokers

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Remuneration will consist of a competitive salary and the usual bank benefits.

Applications supported by a comprehensive curriculum vitae should be addressed to the Personnel Department, Norddeutsche Landesbank Girozentrale, 20 Ironmonger Lane, London EC2V 8EY.

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THE QUALIFICATIONS
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EXPERIENCE
The candidate should have worked with a European company/bank for at least two years in an international treasury/finance position and he/she must be a self-starting individual.

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MONACO

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To be of interest to our client you need to satisfy the following criteria: A solid sales or trading background, at least two years, with Equity Products and their derivatives, good account relationships and a continental viewpoint.

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**The Managing Director
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We are seeking candidates of substance and character, probably aged 35-45, with experience of the securities, insurance or investment markets, who possess a strong legal or secretarial background. In addition, they will require good organisational skills, integrity and sound commercial judgement.

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to head our daily business and financial section. Business Post consists of a minimum 8-page separate section, plus a two-page early morning Late City edition with the latest overseas news and stock prices.

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The maximum personal tax rate in Hongkong is 16.5 per cent.

Preference will be given to those prepared to commit themselves to Hongkong for at least two years.

The Editor will interview selected applicants in London in early April. Applications, with a full CV, should be sent to:

**The Editor
The South China Morning Post
G.P.O. Box 47 Hong Kong**

Tel: 5-652222 Telex: 86008 SCMP FAX: 5-664448

Vocational Training Council
HONG KONG

The Banking Training Centre of Hong Kong

Centre Manager

Vocational Training Council

The Vocational Training Council (VTC), a statutory body responsible for Government assisted manpower training in Hong Kong, will establish a Banking Training Centre of Hong Kong by the end of 1987. The main functions of the Centre include the development and implementation of work-based courses with narrowly defined objectives to cater for the short-term practical training needs of various categories of banking personnel. The Centre will have a Centre Manager, professional, administrative and supporting staff. Applications are now invited for the post of Centre Manager for the administration and operation of the Centre.

Qualifications

Applicants should possess a degree and/or professional qualification in banking. They should have not less than 10 years post-qualification experience in banking part of which should be in managing practical banking training. Prior experience in setting up a banking training centre would be an advantage. The successful candidate will be expected to assume duty in mid 1987.

Conditions

The post will attract a monthly salary of HK$24,785-HK$28,135 (£1 = HK$11.75 as at 27.1.87 but this is subject to fluctuation) depending on qualifications and experience. The appointee will be offered an initial contract of four years, inclusive of leave, plus 25% terminal gratuity upon satisfactory completion of the agreement. Thereafter, the appointee may be offered either contract or superannuable term at the discretion of the Vocational Training Council. Fringe benefits include leave and passages, housing, medical and dental treatments, children's education allowances and school passages.

Application

Application forms are obtainable personally or by post from the Hong Kong Government Office, 6 Grafton Street, London W1X 3LB. The completed application forms should then be returned direct to the Executive Director, Vocational Training Council, 15/F., Harbour Centre, 25 Harbour Road, Wanchai, Hong Kong to reach him on or before 31 March 1987.

TECHNOLOGY

No brake on the pace of change

Peter Marsh explains how automation offered Ferodo of the UK a chance of survival

David Vine: one big change rather than many small ones.

FIVE YEARS ago, the future looked uncertain for Mr David Vine, manager in charge of UK brake-pad production at Ferodo, one of the world's biggest friction-materials companies.

Ferodo, a subsidiary of Turner and Newall, the engineering group, was accumulating large losses because of the company's inability to turn out products at a cost and to a quality that the market wanted.

"We were in a fight to survive," Mr Vine recalls. "To give ourselves a future we decided we had to make one big change, rather than a lot of small ones."

The change — of relevance to other manufacturing concerns struggling to increase product standards while reducing costs — was a £2.5m modernisation of Ferodo's main UK factory, at Chapel-en-le-Frith, near Manchester.

A group of seven engineers under Mr Vine set about replacing the old, heavily labour-intensive method of making brake pads with an automated process. The result has been both an improvement in quality and a huge decrease in manufacturing costs, although Ferodo is coy about saying exactly how much has been saved.

Since 1982, the factory's output has increased by 35 per cent, while the number of employees has dropped by about 700 to 1,500. Mr Vine says that, in spite of redundancies, the company's plans met little opposition because the changes were viewed as essential to recovery.

Thanks to modernisation, Ferodo's UK operations have returned to profit.

The new process is based on 12 computer-controlled manufacturing cells, in which robots shuttle pads in and out of large presses. These machines push metered quantities of fibre-based material into moulds, out of which come hardened plugs. These are stuck to steel plates to form the finished pad.

Robots in the cells, which can be reprogrammed to make different types of pad, also take care of subsidiary operations, such as putting the products in ovens for baking (to change the chemical state of the material) and presenting the items to cutting tools to remove edges.

The cells operate for 24 hours a day. Each of them requires just four workers — one person in charge of production, one maintenance man and two operators, who load goods in and out.

With the new equipment, output per person is 15-20 per cent higher than with the old system. The company has also benefited from a large reduction in the cost of storing pads in various stages of manufacture around the plant.

Output from the cells is increasing and accounts for two thirds of the factory's production. According to Ferodo's schedule, the old manufacturing methods, in which the jobs which can now be handled by the cells are left to groups of workers on machines scattered around the factory, will be phased out completely by the end of next year.

Ferodo's brake pads, of which the Chapel factory makes about 1m a year, in thousands of varieties, mainly end up in the front-wheel systems of cars made by companies such as Ford, Fiat and Volkswagen. In western Europe, after BBA, another big UK components group, Ferodo is the second biggest producer of brake pads, a business worth about £250m a year. Other competitors include West Germany's Jurid, owned by Bendix of the US, and Valeo of France.

Computers in the Chapel system weigh out materials highly accurately, while other sensing mechanisms ensure the fibre stays in the mould for a set length of time. As a result, products are turned out with greater consistency than when done manually where human error was likely.

The new process says Mr Vine, has cut the number of defective items and increased the confidence of customers, which include brake manufacturers such as the UK's Automotive Products and Lucas, and Alfred Teves of West Germany.

A further advantage, according to Mr David Carruthers, chairman of Ferodo's European operations and a Turner and Newall director, is that the equipment makes possible products comprising novel mixtures of materials. Exactly what is in the mixtures is a closely guarded secret.

Pads based on cocktails with about eight ingredients, including fibres and chemical binding agents, require more exact manufacturing techniques than were possible with the manual routine.

The composition of the cocktails frequently changes to create different types of pad, depending on the car it is designed for and whether specific frictional characteristics are needed. This made it essential to have a highly flexible system.

Ferodo has introduced new products partly to reduce the company's use of asbestos, which is widely associated with health problems. A heavy dependence on the substance was one of the reasons behind Turner and Newall's massive cash crisis in 1982, when it had to be rescued by a group of banks.

In the late 1970s, virtually all Ferodo's pads used asbestos, while today the proportion is about half, with substitutes including glass, steel or aramid fibres.

Ferodo's recovery has played a part in the overall reshaping of the parent company. Turner and Newall has, in recent years, reduced unprofitable operations in areas such as building materials and last year registered a profit of £40m on sales of £535m.

By 1983, a year after Mr Vine started work on the design, the project went before the full Turner and Newall board, which approved the scheme. The engineers would have liked a new factory to house the new system—but that was out of the question.

Instead, they cleared a site in the centre of the cluttered, 90-year-old factory at Chapel.

Of the £2.5m the project has cost, about 40 per cent represents systems engineering by the company, with the rest taken up in the purchase of equipment such as robots and presses. Such is the competitive nature of the brakes business that Ferodo refuses to reveal its suppliers, and has hidden these details from visitors by removing name plates from the machinery.

Work scheduled for the next 18 months includes a plan to install more equipment to automate pad production after the basic moulding and baking process. These steps involve finishing processes such as painting, marking and packing in boxes.

Ferodo has already produced a pilot system of this final manufacturing stage. It is due to be introduced at a cost of a further £2.5m.

The multicolour phone call

FINNISH company Vistacom Industries is launching a videophone, which allows a telephone conversation to be accompanied by full colour television images of the speakers.

The system will operate over any suitable digital link, but is aimed mainly at the forthcoming ISDN (integrated services digital network) services, where a pair of 64,000 bit per second (64 kb/s) channels will give subscribers data and images over the telephone lines. Major countries will introduce ISDN in the late 1980s.

To squeeze the high bit rate of a colour TV image into a 64 kb/s channel, codec (code-decode) circuits are used. In normal TV, the picture content of each frame (50 every second) is sent in its entirety. But in a videophone "mug shot" there is little change between one frame and the next and the codec transmits only the changes, reducing the bit rate to 1/1500th of normal. This means rapid movements are blurred. The desk-top unit, housing handset, keypad, camera and small colour screen, weighs 12kg (26lb).

Joint effort on subsea vehicle

UK COMPANIES Mobil North Sea and Ferranti Offshore Systems are undertaking a joint project to design a new subsea production system that can be installed and maintained using a remotely operated vehicle (ROV). The vehicle would be controlled from a support ship, avoiding the need for divers.

The system will be designed for operation in water depths up to 1,000 metres (3,280ft) and will be suitable for oil and gas production using water or gas injection.

It is expected that bids will be invited in the summer for fabrication of a prototype.

Designed for speed

GENERAL Electric of the US is designing custom integrated circuit "chips" for its products in three days, using a "silicon compiler" (computer aided design tool) developed at its Schenectady, New York laboratories.

GE claims that VLSI (very large scale integrated) chips, with up to 35,000 transistors, would have taken six months to complete with the design tools commercially available.

'The fastest bit'

TOSHIBA CORPORATION in Japan reports the development of a one megabit static random access memory chip (SRAM) in which a single stored data item (bit) can be read in 25 billionths of a second.

The company claims this to be the fastest time yet achieved in the technology it has used, namely complementary metal oxide silicon (CMOS). Toshiba plans to commercialise the product, which integrates 6.4m electronic components on a fingernail-sized chip, in the autumn of 1988.

Fingertip control of the screen...

THE UK membrane switch specialist, RH Technical Industries, is offering a touch-screen overlay panel for use with computers or terminals at a price of only £100 in quantities of 100.

The panel is made from polymer materials using a fine matrix of gold conductors thin enough to allow more than 60 per cent of the light through. Attached to any cathode ray tube face or electroluminescent display screen, the unit provides 100 or more independent switching zones of about four square millimetres.

Finger pressure on any cross point switch will send a locational signal to the computer system, allowing the user to select, for example, instructions displayed on the screen.

The company claims a life exceeding one million operations per switch. The maximum available size of the unit is 300 x 400mm.

...or the graphics

IN ITALY, Honeywell Information Systems Italia has developed a dot matrix printer which can also perform as a graphics plotter at the touch of a button.

Aimed at the personal computer CAD (computer aided design) market, the machine has the usual text printing facilities but has additional circuits that give it plotting abilities comparable with the Hewlett Packard 7475A machine.

The change between printing and plotting modes can be effected without switching off. Basic plotting data, like paper size and line thickness, are programmable.

Truck safety in reverse

OGDEN ELECTRONICS, a Yorkshire, UK, company, has developed an electronic safety control system for earth-moving and construction industry vehicles.

It consists of a rear-mounted short-range radar scanner, linked through a central control unit to the vehicle's braking system and gearbox. When an obstruction is detected within a set area to the rear of the reversing vehicle, the system automatically stops the truck.

The system also prevents the vehicle reversing with a raised skip, only allowing limited forward movement when the skip is lowered.

Key to fleet's fuel supply

TRI-SCAN, the UK company specialising in fuel management systems, is producing a programmed key that lorry fleet drivers can use to obtain access to fuel supplies from the company pumps it supplies. Special readers on the fuel pumps interrogate the memory chip in the key before any fuel is delivered.

Called Alphakey, the device can store up to 1,000 characters, sufficiently to describe the driver, his vehicle, his fuel drawing rights and authorisation.

Expectations hang-up

ACCORDING to Logica, the UK software systems house that publishes Tarifica, a telecommunications tariff and service monitoring report, deregulation of telecoms in the UK has had little effect on costs to the business user.

Most people, the report suggests, expected prices to drop, particularly with the competition from Mercury. But charts compiled by Logica show that if the price index in the UK in 1977 was 100, in West Germany it was 204, in France 122 and in Italy 116.

The UK this year edges up to 105 whereas Germany has fallen to 133. The Italian index has risen to 174. The report suggests that perhaps the British should not expect too much by way of lower costs.

WORTH WATCHING

Edited by Geoffrey Charlish

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LETTERS TO THE EDITOR

Where developing countries will lose

From the Director, Export Group for the Constructional Industries

Sir,—I read Peter Montagnon's piece (March 12) about the prospective OECD agreement on concessionality in tied aid with interest. It seems to me however, that it was somewhat misleading.

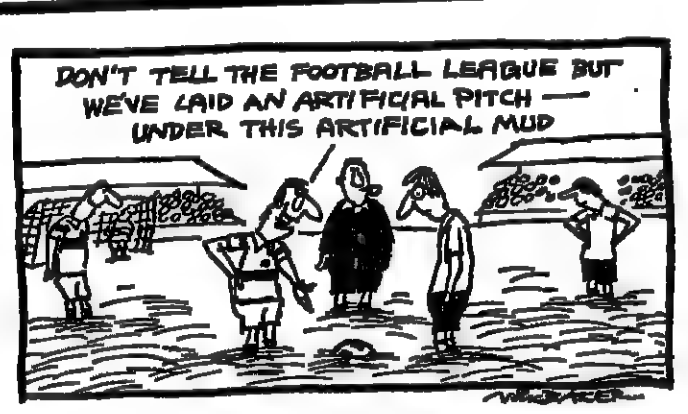
The proposed change will not cut the cost of mixed credits to Britain (in some cases they will cost more), but will only increase the costs to low interest rate countries like Japan. This will slightly level up the cost of supporting projects by low interest rate and high interest rate countries respectively, but not enough.

The main losers will be the developing countries since the available aid will be concentrated and there will be fewer viable projects, which will also adversely affect the industries and workers in the developed countries for whom there will be less work. There will be no gainers, although a certain smug intellectual satisfaction may be achieved by the more doctrinaire members of some Governments and the more theoretical inhabitants of some Treasuries, most of the latter being able to calculate upon having a job until retirement date no matter what happens to the economy. Their smugness will not be shaken by the fact that it is clear to most people in the business world that they are wrong.

The Americans who sought to increase concessionality will continue to have the world's largest aid programme and use it to dominate the world's international contracting industry. If the Japanese accept the proposals it will certainly cost them more to achieve the new minimum concessionality, but they will still be able to support nine times as many projects as the British at lower cost per project, and just because they will have to put more aid into each project they will be even more competitive on the ones they really want.

The original need was that everyone should be put on the same basis by calculating "real" concessionality (that is, by using the difference between the concessional interest rate offered to the borrower and the domestic interest rate of the lender rather than the artificial formulae which benefit low interest rate countries). Instead we have been led along this foolish path of increasing the required concessionality on each loan while leaving an advantage to the Americans (for one reason) and the Japanese (for another).

Peter McGregor.
15-17 King Street, SW1.



Artificial football pitches

From Mr S. Binning

Sir,—I can understand that the Football League wants the maximum possible number of clubs to survive and is prepared to act to prevent closures and mergers. Yet in preventing them continuing to construct artificial pitches the League risks blocking off a promising route to financial stability for clubs of the lower divisions.

Artificial pitches are economically attractive first and foremost because they almost guarantee that games can be played and thereby maintain the clubs' cash-flow when it might otherwise be interrupted through fixture cancellations. No less important, however, is the additional revenue that can be earned from the pitch by hiring it out for purposes as diverse as hockey, American football, or even a Sunday market. With floodlighting available, as it already is at League grounds, the pitch has a potential 10-12-hour revenue-earning day. Moreover, the wider use of football grounds' facilities can only help to integrate them into their communities, an ideal to which the League has long paid lip-service.

There are still some technical problems to be overcome before the characteristics of artificial pitches match those of grass in all respects. Yet, no one who is familiar with the advances in the design of artificial surfaces for hockey over the past 5-10 years will doubt that this can be achieved, especially with a potential market of 80-90 clubs to aim for. By adopting a negative attitude from the outset, the League creates a self-fulfilling prophecy: "No market, no development work, no improvement, no approval," etc.

Few would dispute that a good grass pitch is still the best surface for football. Given the current financial uncertainty surrounding many clubs, however, adopting artificial surfaces appears to be one acceptable compromise to maintain the League's rich diversity. It would be ironic if the authorities' attitude were seen to push clubs into financial collapse making them easy prey for property developers. That surely is a result that hardly anyone wants.

Simon Binning,
Grant Thornton
Management Consultants,
Fairfax House,
Fulwood Place, WC1.

Funding for UK business schools

From the Chairman, Business Graduates Association.

Sir,—As you rightly mentioned in your editorial (March 11) the recent decision of the University Grants Commission to reduce funding for UK business school education, particularly at London and Manchester, is a matter of considerable national concern.

In the past few years there has been a significant expansion in UK management education at both undergraduate and post graduate levels. This new generation of professionally trained managers is increasingly finding itself in senior positions throughout industry. New industries and companies, as well as the old ones undergoing overdue transformations, are increasingly recognising the urgent need for greater professionalism in business and management. The training and education industry catering for this expansion may be far from perfect but it has come a long way in the past 20 years. At last this effort is beginning to make a significant contribution to the regeneration of the British economy. Yet just at the point when this progress needs to be recognised and expanded, the UGC in its apparent wisdom appears to consider it is in the national interest to reduce funding to two of the key management institutions in the country. Both London and Manchester Business Schools already have a significant and growing element of private sector funding but recent pressures could easily result in their efforts being used to educate a greater proportion of overseas managers.

Major reports on the future of management education in the UK, commissioned by the BIM and CBI, are expected in the next few months and what is needed is a thorough discussion of the objectives, strategy and priorities of the whole management education system before radical and, apparently almost instant, changes are undertaken in funding levels. Even if the Government doesn't want the public-sector funding to take the management education sector seriously, it should at least take the way it changes priorities seriously. It is verging on scandalous to find that a London Business School press release has to complain that "LBS was given no warning of the provisional funding allocation and regards the reduction in funding as quite contrary to the UGC's encouragement over the past 12 months of a substantial expansion in student numbers."

The only credible explanation for the UGC's behaviour, and heavy handedness, appears to be that it is attempting to use training-by-example as a way of educating the business schools on how to operate in an uncertain and unpredictable world.

On the other hand, there is now increasing evidence to support the argument that it is not only much more in the national interest for us to expand the resources going into the critical area of management education, but that urgent consideration should be given to finding places on some of these programmes for the members of the UGC themselves.

Bruce Lloyd.
28, Margaret St, W1.

Unwelcome Mayfair shopping plan defended

From Mr M. Coombes

Sir, — I would like to comment on the article "Unwelcome Mayfair development" (March 9). This letter I believe would have been unnecessary if Mr Amery had talked to me about our design.

The article refers to this practice being well known for Heathrow and the Roman Catholic Cathedral at Liverpool. I do not agree with Mr Amery's views of the late Sir Frederick Gibberd's work, but, that apart, I fail to see the relevance of these buildings, which were not designed or executed by any of the existing partners. I think the author is indulging himself in some architectural mud slinging which is as silly and irrelevant as if he had questioned my parantage. I would like him to visit the restored Carriage Hall in Floral Place, Covent Garden; he might see us in a more objective light.

If one reads the inspector's report, which I hope Mr Amery will now undertake, he clearly is in favour of the proposals as well as rejecting alternative schemes of patching up with minor improvements. He did not suggest consent to the Minister on the grounds of some detailed points which related to overlooking and light angles and the juxtaposition of the offices to some of the existing buildings. We have now eliminated all these points by removing the offices from above the shopping arcades. The inspector stated: "It is my opinion that the concept advocated by the appellants provides an acceptable, and perhaps the only, realistic long-term future for the appeals site."

Twenty-three of the 24 listed buildings on the site will be restored. These and the other existing buildings (58 per cent of the total on the site at present) will have their floors, side, front and back walls kept together with their detailing. Where Mr Amery's idea of façadism comes from I have no idea.

We are well aware of the richness of small businesses on the site. Our proposals allow for all to come back on the site and in many cases they can remain on site during the building and restoration programme. There will be no loss of workshop gallery or residential accommodation.

The article states that "it is not hard to imgine flourescent lit cells behind so-called Geogian facades". The only relevant word in this sentence is imagine, it is a figment of imagination although I do have to confess that it is possible that we might provide electric lights. As pleasant as it might be for me to ride to work on a horse I think I might find it a bit inconvenient in this day and age and in the same sense I prefer drawing with anglepoises rather than oil lamps.

Unfortunately architectural critics have recently taken to categorising buildings by post-this or neo-that not surprising as so much of our buildings are now subject to the whims of fashion. I personally do not hold with this approach and I believe architecture should stem from use and form and relationship to its site and in this case the surrounding buildings. The rules of proportion and delight to the eye apply as well, there is nothing neo-Victorian in my design.

We are accused of "gobbling up whole areas of cities and spitting them out again as indigestible and unappetising lumps." What arrant nonsense, I have previously explained that 58 per cent of the existing buildings are kept and 23 of the 24 listed buildings are properly restored.

The final misconception is the very purpose of the shopping itself. It is suggested that the shopping should go to Oxford Street or Brent Cross and that it is not particularly an attractive commercial proposition.

The idea of the scheme is to join South Moulton Street to Bond Street by a shopping arcade. It is not difficult to see the source of our scheme. A chain of very special shops runs from Princess Arcade, Burlington Arcade, Bond Street, South Molton Street to Christopher's Place. We would be providing a much needed missing link to a shopping pattern that is of international importance. At the same time we have the opportunity to keep the existing uses on the site and to restore the fine buildings that front Bond Street, Brook Street and Avery Row.

Michael H. Coombes,
Frederick Gibberd Coombes & Partners,
82-84 St John Street EC1

Potential for overseas sales

From Mr S. Anderson.

Sir, — I read (March 10) with interest your article headed "Huge potential for overseas sales" but I believe it missed one of the key issues in successful exporting.

Some companies are not performing abroad, particularly on the Continent, because they have made ill-considered decisions with regard to the appointment of agents and distributors. Too many small British companies appoint the first candidate they come in contact with, only to find afterwards that the company appointed is unsuitable and difficult to change.

Your article refers to the survey done by the Small Business Research Trust which is indicative of the problem. Few British companies regard language as a barrier because too many of them think that a foreigner's ability to speak English is directly related to his commercial ability to do a good job for them. It also indicates that too few British companies understand the necessity of doing their commercial homework on a foreign market (distribution, pricing, competition etc), before mortgaging their future by appointing a representative who they later may have great difficulty in getting rid of when he doesn't perform.

With sterling at its current level against European currencies the time is now right for small British companies to be expanding their export activities to the Continent.

Stuart Anderson, ...
Pemberton Associates,
19 Stratford Place.

Effectively eradicating the tanker surplus

From Mr K. Shilleto

Sir,—I fear the Chamber of Shipping and other interested lobbies are spitting into a force 10 gale when appealing to the Chancellor for fiscal consideration. Anyway, they are not tackling the basic problem which is one of over-supply. In bulk carriers a balance may be struck within 1987 or early in 1988; for tankers the outlook is bleaker, though not without hope.

In the light of the Zeebrugge tragedy, it is worth considering whether the possibility of good may not result from the contemplation of ever present risk. Imagine the outcome of a collision in the Channel between one of the soon to be introduced "superferries" and a fully loaded Very Large Crude Carrier of 250,000 tons capacity bound for Rotterdam. Thousands of passengers entombed or thrown into a raging sea of fire. Little chance of any rescue. That such an accident has not occurred to date is a tremendous tribute to the professionalism and expertise of the Channel monitoring services and all mariners.

The average age of VLCCs was 11.2 years at the end of 1986. About 25 per cent of VLCCs is 15 years old and that percentage is rising by the month. These monsters have built-in problems of braking and manoeuvrability which do not decrease with age and represent a growing peril to their crews and other traffic when operating in confined waters or those carrying dense traffic.

The tanker surplus could be promptly and effectively eradicated by refusing a trading licence to VLCCs aged 15 years or more either by mandatory withdrawal of insurance cover or other international action and restricting trading patterns for all vessels in the class (over 200,000 dwt). For example, VLCCs in cargo from the Arabian Gulf to Rotterdam, West Germany and Scandinavia would have to pass north of the British Isles. No VLCCs would be permitted closer than fifty miles to inhabited coasts worldwide when laden, except for normal safe port approach routing.

These two sanctions alone would greatly reduce oil transportation capacity, increase the ton-mile factor for large vessels and improve income for tanker owners, thus enabling smaller tankers to operate profitably at substantially higher freight levels and permitting shipowners to re-invest in new and therefore safer tonnage without assistance from the Chancellor.

The consumer would hardly suffer more than usual at the petrol pump as freight today represents one-eighteenth of fob cost per barrel and the oil companies' habit is to raise prices in a high freight situation and pocket the difference in a low. He might also cross the Channel with fewer qualms.

K. D. Shilleto,
Internaft,
2 Basil Street SW3.

TV time for the views of ordinary people

From Ruth Kelham

Sir, — Christopher Dunkley (March 11) has really come out of the closet. He wants TV to give more time to the views of "ordinary" people — in order to ridicule them and expose them for their odiousness and possibly sinister implications! These views, which he describes as "deeply conservative with a small c" when he first mentions them, have become "right-wing" by the end of the article. To use the example which started the train of thought, what is particularly right-wing about believing homosexuality to be "unnatural?" I suggest he tests this view among "ordinary" Labour supporters, on housing estates not in newspaper offices.

Ruth Kelham,
13 Bloemfontein Avenue, W12.

Television/Christopher Dunkley

Whacked round the head with a handbag

I am getting rather tired of television drama which is dedicated not to entertaining me but to wagging its finger at me. There should be, and indeed there is, plenty of space on television for finger-wagging: documentary slots are quite suitable. Even there it would be dreadfully tedious if every programme was intent upon ticking us off for our male chauvinism, our failure to respect the environment, our blindness to the problems of the handicapped, and so on. But a reasonable admixture of such programmes seems acceptable.

ITV's series *Earth: The Shadow of Humanity* has been taken to task for being too ready to lecture its audience. Kirsty Milne writing in The Independent said: "If you are trying to sell environmental concern to a human audience, there is not a great deal of mileage to be got out of presenting Man as the enemy and planetary predator number one . . . the message is clear: Man's a disaster. It's all our fault."

But that, surely, is precisely the case that the producers want to make. My feelings on this subject were much affected by serving on the jury for the Wildscreen festival a couple of years ago when programme after programme showed scenes of deafforestation, animal slaughter and the steady reduction in the number of species.

It induced a feeling close to panic: if the creation of acid rain, the depredation of the animal kingdom, the felling and burning of the jungle (25 acres of tropical forest is being destroyed every minute, says *The Shadow of Humanity*) do not stop now we shall be too late. The agonising thought occurs: we sit here and watch all this in the UK, but is Brazilian television showing the same sort of thing to Brazilians? And anyway how can you expect slash-and-burn techniques to stop if they are a person's only means of survival?

More widespread understanding must be part of the answer, and my feeling about *Earth: The Shadow of Humanity* is that instead of being shown at 10.30 it should be screened bang in the middle of peak viewing hours. At least television's record on the environment is better than that of newspapers, and if ecological consciousness does save us and the planet from disaster, television will be entitled to take much of the credit for having spread the Green revolution world-wide. Yet for that crucial aim to be achieved there will surely have to be a co-operative effort from all channels which will put the campaign on Aids (a rather less urgent subject) in the shade.

It is in the nature of humanity, however, that even in the shadow of Armageddon we cannot spend all our time being serious. In fact the closer we move towards the Apocalypse the more we need entertainment to divert us, and traditionally drama has been one of our chief entertainments. But when you look at work such as *Heart of the Country*, *Intimate Contact* and *She'll be Wearing Pink Pyjamas* which have been shown in the past week on BBC2, ITV and C4 respectively it is difficult to believe that they were created with entertainment primarily in mind.

The most shamelessly transparent piece of propaganda is *Intimate Contact*, written by Alma Cullen and directed by Waris Hussein. With hindsight it is easy to see that it was a disastrous mistake to start this series immediately after the television blitz on AIDS. So intense was our consciousness of the subject that we were all miles ahead of the plot, our patience at breaking point as Daniel Massey and Claire Bloom moved oh-so-slowly towards the moment of truth in the hospital. "It's AIDS, you dumb-dumb!" we were screaming at the screen. "AIDS—the little blue one with knobs on that looks like a naval mine."

When Massey finally mouthed the immortal (all right, mortal) line "I'm only going to say this once, it's AIDS, do you know what that is?" the bathos was awful. Did she *know*? After the previous fortnight how could anyone not locked in a time capsule not know? Yet this was presumably the result of bad luck with scheduling.

Not so the script which is littered with those embarrassing cliches indicating too much attention paid to other people's fiction and to little to real life. Massey is required to declare "Me and my team, against all the odds, we pulled it off!" Poor

Jimmy Nail and Brian Cox in "Shoot for the Sun"

Claire Bloom has to say "Whatever it is dash we'll face it together" and even if that "dash" was actually silent it might just as well have been spoken.

More important and more distasteful is the way in which the series is so obviously part of the campaign to spread the belief that Aids is as much a threat to British heterosexuals as it is to those in central Africa or was to homosexuals in San Francisco when, in fact, the evidence points the other way.

The finger wagging starts in the promotion material: "What makes *Intimate Contact* so politically important, Massey believes, is that the character he plays—successful businessman Clive Gregory—is heterosexual." And the actor himself is quoted as saying "Here we have a very comfortable middle class set up, and I think this is putting a bomb under that section of the community." When strident didacticism of that sort is your chief purpose it becomes quite unmistakable on the screen.

Former advertising copywriter Fay Weldon who wrote *Heart Of The Country* seems wedded to the belief that if you want to convey a message to the public the best way is not merely to wag your finger at them, but to whack them round the head with your handbag. Repeatedly. Her message in this piece, which swings with alarming speed from the fey to the bilious, is that all men are bastards. "He's very responsible" says one woman of a little boy. "He's male" says another woman, "that means he's responsible just as long as it suits him."

The same sour attitude spread its taint through *She'll Be Wearing Pink Pyjamas*. "I'm the wife of the headmaster of a preparatory school," said one woman, "I have three sons and the main emotion I feel towards all four of them is resentment." There is, of course, no reason why women in dramas should not make such remarks (though you can imagine the shrill keening from the feminists if anyone today dared say such things about women) but it is worse than disapointing when it turns out that that is all that an author has to say.

No one expects them to be as good as Sophocles or Shakespeare, but perhaps they could be sent back to look at the works of the masters to see why they have lasted: their timelessness, their universality, their compassion, their endeavour to embrace all humanity. Shakespeare had lessons to teach but he rarely needed to wag his finger.

There has been one piece of television drama this week where the subject matter—the junkies and pushers of the Edinburgh under-life—could so easily have led to another civics lesson but resulted instead in a work which, while raw and bleak, was also shockingly powerful and sometimes moving. The reason was that in *Shoot for the Sun* writer Peter McDougall was concerned not with propaganda but with being true to his characters and his subject.

Though far from sentimental he takes a deeply compassionate view of those at the lowest level of society, and he seems to create his drama by climbing deep inside his characters and writing his way out. The method is the very antithesis of finger-wagging drama where characteristics are plastered higgledy-piggledy on to cardboard cut-outs to serve the pedagogic needs of the writer.

In *Shoot For The Sun* director Ian Knox drew two mighty performances out of Jimmy Nail and Brian Cox as the small-time heavies, and remarkable pathos out of Billy McColl and Sara Clee as the addicts. It is difficult to imagine a drama more likely to put you off heroin for ever—and not so much as a hint of a wagged finger.

British musicals blast onto Broadway

As if to show just how dependent New York has become on London for its musicals, *Starlight Express* and *Les Miserables* have opened on Broadway within three days of each other. They are the first major musicals since *Me and My Girl* in August and in one week provide the majority of musicals for the whole of the season, which will not end until May.

The two openings also mark the prodigious feat of putting on two major productions simultaneously by director Trevor Nunn, set designer John Napier and lighting director David Hersey. And they have done far more than pick up a road show for the provinces, each production having undergone considerable modification and elaboration. *Starlight Express* in particular looks like the difference between a home movie and a Hollywood extravaganza. If the United States cannot produce its own musicals, at least it challenges the British to go all out for American audiences.

The engineering marvel in London where the Victoria Theater accommodates skating throughout the audience has been changed in New York to confine the skating to the Gershwin's extended stage area. But now three dimensional models of cities, cows in fields and villages dot the three-level track, which is laid out with a vague resemblance to an American map. Signs for west coast cities hang from the three levels stage left and east coast ones stage right, with landmarks like the White House and the Hollywood sign painted on the backdrop.

The songs have been reworked to sound more like chart numbers, which they are expected to be. Rather than use the original cast members, the original soundtrack album will really be "original," using a different arrangement of the race theme for a 12-in dance record and hiring pop stars Stephanie Mills to sing the ballad "Only He" and El Debarge to do the title song to ensure chart action.

The more confined space has forced the set to use a steeply banked central skating area, which gave the cast some problems keeping their balance on the opening night, particularly early in the evening. As actors, the ensemble of 41 retain the winning innocence that makes the production work, despite the high gloss and pyrotechnics which include a second bridge that spans the whole stage over some of the audience's heads and a constant light show underfoot and overhead.

The subtler changes in *Les Miserables*, at the Broadway, emphasise the conflict between Jean Valjean and the relentlessly chasing policeman Javert. Trevor Nunn and John Caird, who directed and adapted the work from the original French rock opera, flesh out the characters with Valjean giving a complete confession of his past to Marius, his prospective son-in-law, while Javert, played with bug-eyed determination by Terence Mann, is destined constantly to step out of the shadows to torment Valjean.

The two members of the cast repeating their roles, Colm Wilkinson as Valjean and Frances Ruffelle as the pitiable Eponine, inspire the American cast. They carry the spirit of revolution that infuses the second act and transforms a sometimes less than faithful version of Hugo into a breath-taking and moving spectacle of people desperately determined, despite the odds, to take their fate in their own hands. Ruffelle's haunting voice echoes through the ancient walls in which she sings "On My Own" while Eponine's father and Valjean's criminal torturer, M. Thenardier, gets a robust comic interpretation by Leo Burmester, assisted by Jennifer Butt as his miserable wife.

*

Americans, now constantly debating about what the Japanese have done to the domestic car industry, have reason to add the question of why London has overtaken the world as musical producers. The expense of indigenous production comes up in all fields, but it makes a particular difference to the theatre, where a successful London production helps pay for mounting the work in America. Word of mouth brought an $11m advance ticket sale of *Les Miserables* to help repay backers immediately, and even *Starlight Express*, which got less than ecstatic reviews in New York, had more than $5m in advance sales to carry it past the impact of the local critics.

But spending money does not replace talent. Scenes like Javert's suicide with the brilliant raising of the bridge to show his fall and the swirling revolve as he sinks into the sea are spectacular effects unrelated to cost. European musicals have tapped into contemporary pop music more than the American musical, which tends to skip the last two decades and rely on a tradition that is being revived at the New York City Opera (a new production of *South Pacific* is a case in point) while leaving Broadway bare. So if it is quite a week for the British, it is just as significant, if not more so, for removing the pall that has been covering Broadway lately.

Frank Lipsius

Opera North's summer season

Opera North's summer season includes the British stage première of *Daphne* by Richard Strauss with designs and production by Philip Prowse. It opens in Leeds on May 2 with Helen Field in the title role and will be broadcast by Radio 3.

The season itself begins on April 2 with Graham Vick's production of Mozart's *Seraglio*, first seen during the summer 1986 St Louis Festival, followed by *La Bohème* on April 10.

All four operas then go on tour to Hull, Manchester, Nottingham and York.

The Emperor/Theatre Upstairs

Michael Coveney

The haunted house of the Emperor's court in the final days of Haile Selassie is a room of grey doors, hatches, concealed corridors and stealthy conspirators in grey suits. This hypnotic vision of a tyranny in decay is adapated by Michael Hastings and Jonathan Miller from the remarkable book *The Emeperor* by the Polish foreign correspondent Ryszard Kapuscinski, who tracked down and interviewed Selassie's surviving courtiers in the chaotic aftermath of the 1974 revolution.

The show follows exactly the narrative technique of the book, the cast of five confiding details of the Emperor's delicate progress through the gardens to feed his lions, his benevolent welcome of privileged supplicants, the various Hours of Assignments, the Cash Box and, as widespread poverty and starvation are reported through unco-operative foreign news hounds, Development.

Each actor plays, fleetingly, many roles but the impression is not one of chaotic doubling but of a calm and cumulative choreography, as figures approach from all angles to seek preferment, exchange gossip, pick up tips in the art of politics as practised by the Lion of Judah, Solomon's descendant. Rarely in my experience has the illusion of power, its eerie evanescence been so vividly represented on the stage, a stage which seems to hum with tension and muffled threats in these painterly compositions.

The physical wispiness and remoteness of Haile Selassie is daringly conveyed as his identity slips among the actors; but the prevailing imperial image resides in the extraordinary foreshortened figure of Nabil Shaban, whose large head and tiny trunk sit on a leopardskin lined wheelchair like a canapé on a tray. Shaban's deformity has been used with mixed success in the Graeae Company; here it is waved hilariously under our noses as he joins in the general brouhaha, flinging his withered legs around in the bizarre routine of morning calisthenics suddenly ordered by Selassie as his regime disintegrated.

Shaban also drives his vehicle thuddingly into the front row to illustrate a stuttering tractor and reports, in his sly ingratiating way, how the Jonathan "Dimblibee" 1973 TV programme first blew Selassie's cover in the West; this leads to the comic image of plane-loads of "European Dimblies" flying in to raise a din about starvation. An outstandingly sleek and predatory quartet surround Shaban: the expensively bespectacled Hepburn Graham, the princely Okon Jones, the anxiously bearded Ben Onwukwe and the elasticated, expressive Stefan Kallpha.

The walls of the palace have ears, and we are used to Eastern European productions of Shakespeare and Dostoevsky that put labyrinthine social and political systems on either side of curtains and doors; Miller himself has staged *Hamlet* in a Memory Theatre of entrances and exits, *Measure For Measure* and *Tosca* in mid-20th century whispering civil power bases. This cool, insidious and unforgettable Miller production, brilliantly designed by Richard Hudson, will take its place alongside his very best work on the physiognomy of power and the ballet of oppression.

The Marriage of Panurge/Regent's College

Claire Armitstead

The Medieval Players are a strolling group whose name does not inhibit them from the occasional ramble into the renaissance and beyond. In this case, their subject is Rabelais' *Gargantua and Pantagruel* in translation by Sir Thomas Urquart that has been so liberally updated by adaptor Julian Hilton and the gang that it is not above the odd passing reference to raids on the BBC.

Into *The Marriage of Panurge* have been stirred books two and three of Rabelais' masterpiece. *The Birth of Gargantua* and *The Voyage to Cockaygne* are to follow later this year, finances permitting, incorporating all five books into a vast Rabelaisian trilogy that will tour Britain and then Australia. But if it is vast, it will certainly not be weighty: aside from the somewhat ponderous programme note justification for "doing" Rabelais, this ship of fools is simply the best qualified English group I know to tackle the master of popular laughter on equal terms.

It is comedy that shoots from the cod-piece. Whether its peculiar brand of phallic jesting appeals or makes one squirm in one's seat, there is no denying the panache with which it is delivered under Carl Heap's direction by the troupe of six multi-talented performers who sing, play instruments and clown around as the revelry demands on a simple booth stage that lends itself with equal ease to huge stilt-walking giants or tiny hand-puppets.

Even the aseptic expanse of hall in what was once Bedford College in Regent's Park took on a faintly disreputable air as the Players' dropped in for two days with their tale of the giant Pantagruel and his lewd, conniving jester Panurge. From Prince Pantagruel's nativity as ever-thirsty, man-sized infant, through his meeting with Panurge among the pretentious of academic Paris and on to their subsequent adventures together, the perspective leaps and jumps about: a puppet show illustrates Panurge's obsession with a sniffy Lady of Paris; monstrous one-eyed King Anarchus and his giants, enemies of the prince.

If I had a criticism it was that the jokes and visual gags sometimes came thicker and faster than the narrative structure could strictly bear. But designers Susan Platt and Andrew Feest square up to a deceptively large brief with a humour and relish that characterises this company and this show, both of which are now under threat from Arts Council cuts. It would be a pity if for a ha'porth of tar this ship was lost. Love it or hate it, there's nothing quite like it.

Thatcher's Women/Tricycle, Kilburn

Antony Thorncroft

"Thatcher's Women" is the name given by the King's Cross regulars to the girls from the north country who nip down to London for a quick bit of prostitution to pay off the bills, or to finance Christmas. Kay Adshead's first play, for the Paines Plough Company, follows the fortunes of three such "mysteries," mixing professional know-how with poetic fantasy. It is an encouraging debut.

Of course, homely Marje, randy Norah and canny Lynda are all equipped with hearts of at least 14 carat gold and the expedition, forced upon them by redundancy at the pie factory, has more the feel of schoolgirls playing hookey rather than housewives after nooky. Indeed Norah (Rachel Davies) gets no further than the King's Cross buffet, where love flickers ironically over the coffee cups.

Marjorie Yates, as Marje, combines catatonic lethargy in public with free flowing monologues about cotton mills and foxes when she gets the stage to herself. Working Streatham Common, she becomes obsessed with the persecuted foxes: there are probably some metaphors to be drawn. Only Debra Gillett, as Lynda, comes across as a prostitute with potential. By the end, with her dreams of running her own small escort agency and paying tax she is promoted to a pukkha Thatcher woman.

Sometimes Kay Adshead over doses on purple patches, which rub along uneasily with the arcane information that club "hostesses" have to cope with champagne lice as well as drunken boorish Boers. But the short sharp scenes keep the action moving, and the contributions of Amanda Symonds as a London tart, twice over, and Robin Soans and Jonathan Stratt, as a mob of mainly nasty men, are sharp.

No real feel of the murky side of prostitution—the drugs, the pimps, the debasement of women — and men — comes across, and the moment of fantasy near the end when the inevitable bent cop is ravaged by foxes is surely a mistake, but the powerful characterisation, the committed acting, and the pacey direction, by Pip Broughton, make for an enjoyable experience.

Tortelier/Barbican Hall

Richard Fairman

Now in his 73rd year, the cellist Paul Tortelier is as vivid a stage personality as ever. His playing has lost none of its mercurial sensitivity or its ability to change, chameleon-like, in character almost from phrase to phrase. The many quizzical expressions as he plays tell the same story.

His own music—for Tortelier is a composer as well as performer—exploits this to the full. This recital at the Barbican on Monday included one of his latest pieces, a highly descriptive composition entitled *Mon Cirque*, in which the cellist parades a naive and witty little series of vignettes: "L'hypnositeur" with his staring expression or "Paillettes," the scantily-clad girls on a high wire skipping across the strings with delicately touched-in harmonics.

It would be quite possible to treat these short numbers as studies, since each incorporates difficulties in the manner of an exercise, but technique alone has never been of much interest to Tortelier. Instead they came to life as individual portraits, helped by the maestro's quaint spoken introductions, and sported a range of dazzling characteristics, colours and expression, that belied their lack of real musical substance.

The rest of the programme included a poorly-tuned Boccherini sonata and a pointed quicksilver account of Debussy's Cello Sonata which parted company once or twice from Geoffrey Pratley's sterling accompaniment. Perhaps the most engrossing item was Bach's Third Suite for solo cello, its "Courante" touching in different shades of tone with the side of the bow and the "Bourée" bringing great freedom of expression to a simple solo line.

Transcriptions of popular favourites followed. The Intermezzo from Granados's *Goyescas* and *Zapateado* by Sarasate, a showpiece originally meant for violin, brought the printed programme to an effervescent close. But there was an unexpected novelty still to come in the encore, a Viennese waltz duet for which the soloist was joined by his cellist wife — another Tortelier face to add to the many that we had already seen and heard from the maestro in the course of the evening.

Saleroom/Antony Thorncroft

Sotheby's cleared out the remaining contents of Sutton Place in Surrey yesterday. This erstwhile home of the late J. Paul Getty is now owned by another American millionaire, Mr Fred Koch, who will house his fine collection of Victorian pictures there.

Among the pictures sold yesterday was a portrait of Lord and Lady Abergavenny, painted in the late 16th century, which just about trebled its forecast at £21,450. A portrait of a lady, dated 1558 and attributed to Hans Eworth, made £19,250.

The auction took place in Billingshurst. Back in Bond Street Sotheby's brought in £675,175 from continental pottery and porcelain, with 12 per cent unsold. A Bottger "Hausmaler" armorial silver gilt mounted coffee pot and cover of 1725-30, probably decorated by Abraham Seuter, made £41,800 as against an £18,000 top estimate.

Among the early ceramics, a Sienna wet drug jar, dated 1501, was just within its top estimate at £39,600. It sold to the Munich dealer A. Moatti who also acquired a similar for £35,200. Two other examples of this form are in the British Museum. A Berlin presentation vase of 1832, with a view of Berlin, made £22,000.

At Christie's a fine enamel by Henry Bone, produced in 1823, and based on an Holbein portrait of King Henry VIII, sold for £52,800 as against a top estimate of £12,000. It was well regarded in its day and sold then for 400 guineas.

Arts Guide

Music/Monday. Opera and Ballet/Tuesday. Theatre/Wednesday. Exhibitions/Thursday. A selective guide to all the Arts appears each Friday.

March 13–19

Theatre

NETHERLANDS

Amsterdam, Bellevue Theatre. The English-speaking Theatre company presents Barbarians by Barrie Keeffe, a trilogy of short plays tracing the fortunes of three school-leavers, two white and one black (Tue to Thur). (247 248).

LONDON

Les Liaisons Dangereuses (Ambassadors): Christopher Hampton's masterly version of Laclos' epistolary novel is sexy, witty and wise, like a collaboration between Marivaux and de Sade. Howard Davies's sell-out pre-Revolutionary production for the RSC has moved from the Pit with Alan Rickman and Lindsay Duncan still battling and bitching over lovers and other riffraff. (836 6111, CC 836 1171).

Misalliance (Barbican): Barely seen Shaw, and a much underrated play, given the full RSC works by John Caird, a Polish new woman crashing into the surrey conservatory in her monoplane. Jane Lapotaire sparkles alongside Brian Cox, Elizabeth Spriggs and newcomer Richard McCabe (628 8795, CC 638 8891).

The Phantom of the Opera (Her Majesty's): Spectacular but emotionally nutritional new musical by Andrew Lloyd Webber emphasising the romance in Leroux's 1911 novel. Happens in a wonderful Paris Opera ambience designed by Maria Bjornson. Hal Prince's alert, affectionate production contains a superb central performance by Michael Crawford. A new, meritorious and palpable hit. (839 2244, CC 379 6131/240 7200).

Woman in Mind (Vaudeville): Alan Ayckbourn's new comedy has a brilliant performance by Julia McKenzie as a dissatisfied housewife visited on her own garden lawn by an imaginary ideal family. Bleak but funny, hailed in some quarters as vanguard feminist drama; be not put off by that. (836 9987/5645).

42nd Street (Drury Lane): No British equivalent has been found for New York's Jerry Orbach, but David Merrick's tap-dancing extravaganza has been rapturously received. (836 8108).

The House of Bernarda Alba (Globe): Lorca's last tragedy in a successful production transferred to the West End from Hammersmith. Nuria Espert, veteran Spanisch actress/director, has drilled a high-calibre cast led by Glenda Jackson and Joan Plowright into a near-authentic portrayal of steam frustration in an all-female household oppressed by both traditional catholicism and the peasant class system. Ultimately it's all a bit British, but the company provides a roll-call of some of the best actresses around – all eclipsed by the ineffably touching Julie Legrand. (437 1592).

Starlight Express (Apollo Victoria): Andrew Lloyd Webber's rollerskating folly has 10 minutes of Spielberg movie magic, an exciting first half and a dwindling reliance on indiscriminate rushing around. Disneyland, Star Wars and Cats are all influences. Pastiche score nods towards rock, country and hot gospel. No child is known to have asked for his money back. (834 6184).

NEW YORK

Cats (Winter Garden): Still a sellout, Trevor Nunn's production of T.S. Eliot's children's poetry set to trendy music is visually startling and choreographically feline, but classic only in the sense of a rather staid and overblown idea of theatricality. (239 6262).

42nd Street (Majestic): An immodest celebration of the heyday of Broadway in the '30s incorporates gems from the original film like Shuffle Off To Buffalo with the appropriately brash and leggy hoofing by a large chorus line. (977 9020).

A Chorus Line (Shubert): The longest-running musical ever in America has not only supported Joseph Papp's Public Theater for eight years but also updated the musical genre with its backstage story in which the songs are used as auditions rather than emotions. (239 6200).

La Cage aux Folles (Palace): With some tuneful Jerry Herman songs, Harvey Fierstein's adaptation of the French film manages, barely, to capture the feel of the sweet and hilarious original between high-kicking and gaudy chorus numbers. (757 2626).

I'm Not Rappaport (Booth): The Tony's best play of 1986 won on the strength of its word-of-mouth popularity for the two oldsters on Central Park benches who bicker uproariously about life past, present and future, with a funny plot to match. (239 6200).

Big River (O'Neill): Roger Miller's music rescues this sedentary version of Huck Finn's adventures down the Mississippi, which walked off with many 1985 Tony awards almost by default. (246 0220).

The Mystery of Edwin Drood (Imperial): Rupert Holme's Tony-winning resurrection of the unfinished Dickens classic is an ingenious musical with music-hall tunes where the audience picks an ending. (239 6200).

CHICAGO

Pump Boys and Dinettes (Apollo Center): Facetious look at country music and down-home country life with a good beat and some memorable songs, especially one played on kitchen utensils has proved to be a durable Chicago hit. (935 6100).

She Always Said, Pablo (Goodman): The company's associate director, Frank Galati, created this pastiche of music by Virgil Thomson and Igor Stravinsky with words by Gertrude Stein and visuals by Pablo Picasso. Performed by 11 actors, the work features Picasso's Minotaur as well as Picasso, Stein and Alice B. Toklas. Ends April 4 (443 3800)

WASHINGTON

Citizen Tom Paine (Eisenhower): Richard Thomas stars in popular historian Howard Fast's look at the Thetford-born American radical's rise and fall to obscurity, in between the fame brought by Common Sense. Ends April 12. Kennedy Center (254 3670).

Central aim of financial strategy is to reduce money growth

Mr Nigel Lawson, presenting his Budget yesterday, said that he expected 1987 to be a year of balanced growth with low inflation. But he cautioned that despite a strong growth in expors it would take time for the full effect of the exchange rate adjustment

The setting for this year's Budget is more favourable than it has been for very many years.

We are now entering our seventh successive year of steady growth, and the fifth in which this has been combined with low inflation.

The public finances are sound and strong, and unemployment is falling.

These are the fruits of the Government's determination, in bad times as well as good, to hold firmly to our policies of sound money and free markets. Once again, I reaffirm those policies.

I shall begin, as usual, by reviewing the economic background to the Budget. I shall then turn to monetary policy and to the fiscal outlook this year and next.

Finally, I shall propose some changes in taxation designed to improve still further the prospects that lie before us.

A number of press releases, filling out the details of my proposals, will be available from the Vote Office as soon as I have sat down.

I start with the economic background.

Nineteen eighty-six was dominated by the sudden collapse of the oil price. Our own economy was affected not only directly, as a major oil producer and exporter, but also by the pause in world growth as the world economy adjusted to what has been described as the third oil shock.

Despite this dislocation, however, the economy has developed in most respects as I foreshadowed a year ago.

In 1986 as a whole output grew by a further 2½ per cent or so, which compares well with the experience of other industrialised countries.

It is worth recalling that during the 1960s, and again in the 1970s, Britain's growth rate was the lowest of all the major European economies.

Growth improved as inflation fell

By contrast, during the 1980s, our growth rate has been the highest of all the major European economies.

And this greatly improved growth performance has been accompanied by falling inflation, which at 3½ per cent in 1986 reached the lowest figure for almost 20 years. Over the lifetime of this Parliament, inflation has averaged less than 5 per cent.

During the first half of last year exports and hence output were affected by the pause in world growth to which I have already referred. But since the middle of the year exports have grown strongly. Indeed, over the last three months the volume of exports of manufactures was 6 per cent higher than a year earlier—a better performance than that of any other major economy.

This pattern was reflected in the rapid growth of manufacturing output in the second half of last year.

This resurgence of economic growth, coupled with the special measures we have taken, has brought about a welcome fall in the number of people out of work. Since July unemployment has fallen by more than 100,000; the largest six-monthly fall since 1973. Though the numbers out of work are still far too high, both youth unemployment and long-term unemployment are now lower than they were a year ago.

I announced a number of specific employment measures in my last Budget, and since then, my Rt Hon and Noble Friend the Secretary of State for Employment has further extended the Restart programme for the long-term unemployed.

There will also be more places on the Enterprise Allowance Scheme, and the number of Jobclubs is to be quadrupled. The new Job Training Scheme will eventually give a ¼m people, most of them youngsters, vocational training leading to recognised qualifications.

Rate of growth of output

With these and other measures, this Government has developed its employment and training programmes on a scale which no other country can match. But the best hope of all for the unemployed is in the continuing vigour of the economy.

Since the early months of last year, there has been a further surge in manufacturing productivity. This continues the remarkable improvement in productivity growth achieved by British industry throughout the 1980s.

During the 1960s, and again in the 1970s, growth in manufacturing productivity in the UK was the lowest of all the seven major industrial countries in the world. During the 1980s, our annual rate of growth of output per head in manufacturing has been the highest of all the seven major industrial countries.

The recorded current account of the balance of payments went into deficit in 1986 by around £1bn. This followed a cumulative current account surplus of some £20bn between 1979 and 1985.

Some deterioration in the current account was inevitable in the face of a £4bn loss of earnings on oil trade virtually overnight. But the significance of this should not be exaggerated. The exchange rate adjustment that followed the fall in the oil price is already contributing to an improved non-oil trade performance.

And earnings from the massive stock of net overseas assets we have acquired since 1979 will provide a continuing support to the current account in the years ahead. At well over £100bn, our net overseas assets are now greater than at any time since the [Second World] War, and second only to those of Japan.

Balanced growth and low inflation

Looking ahead, I expect 1987 to be another year of balanced growth with low inflation. Total output is forecast to rise by 3 per cent, with exports and investment up by rather more than that.

By then we will have registered the longest period of steady growth, at a rate approaching 3 per cent a year, that the British economy has known since the War. Manufacturing industry, in particular, should do well in 1987.

And with the non-oil economy set to grow at 3½ per cent, there is every prospect of unemployment continuing to fall throughout the year.

In last year's Budget speech I said that the outlook for jobs depended on a sustained improvement in the performance of business and industry.

That sustained improvement in economic performance is now well under way.

Despite the strong growth in exports, it will inevitably take time for the full effect of the exchange rate adjustment to work through.

The current account is thus likely to remain in deficit this year, by some £2.5bn, around half of 1 per cent of GDP.

As I foreshadowed in the Autumn Statement, inflation may continue to edge up for a time, perhaps exceeding 4½ per cent by the summer, before falling back to 4 per cent by the end of the year.

Imbalances in major economies

While short-term fluctuations are inescapable, it remains the Government's prime objective to keep inflation on an underlying downward trend.

Given the continuation of present policies in this country, the biggest risk to the excellent prospect I have outlined is that of a downturn in the world economy as a whole.

There are still serious imbalances afflicting the three major economies—the United States on the one hand and Japan and Germany on the other—which, if not handled properly, could lead to a simultaneous downturn in all three.

The best hope of all for the unemployed is in the continuing vigour of the economy. Since early last year, manufacturing productivity has surged again.

And this in turn could be exaggerated by renewed turmoil in the foreign exchange markets, whose tendency to overshoot is as notorious as it is damaging.

It was to address these dangers that the finance ministers and central bank governors of six major nations met in Paris last month, and agreed among other things to co-operate closely in fostering a period of exchange rate stability.

In my Budget speech last year, I said: "Provided we are not over-ambitious, I believe that the Plaza accord is something we can usefully build on."

That is what we have now done, with Plaza II. But it would be idle to deny that the wider risks still remain.

Reducing growth of money GDP

Short of a world downturn, which can and must be avoided, British industry now has an outstanding opportunity, with growing markets at home and overseas, low inflation, rapidly growing productivity and greatly improved profitability.

Provided it can control its costs and maintain its present competitive advantage, and assuming the continuation of present policies, we can look forward to many more years of strong growth combined with low inflation.

For its part, the Government will keep in place a sound and prudent financial framework. That means, as it has done since 1980, the medium-term financial strategy.

The central objective of the MTFS is gradually to reduce the growth of money GDP over the medium term, so as to squeeze inflation out of the system and ultimately to achieve price stability.

This requires monetary discipline buttressed by low public-sector borrowing.

The essential instrument of monetary policy must remain short-term interest rates. These will continue to be set in the light of monetary conditions as indicated principally by the growth of narrow and broad money and by the behaviour of the exchange rate.

No explicit target for broad money

For narrow money, M0, the target range for next year will be 2 to 6 per cent, as foreshadowed in last year's MTFS. For broad money, however, as the Governor of the Bank of England cogently argued in his Loughborough lecture last October, it is probably wiser in current circumstances to eschew an explicit target altogether.

But broad money will continue to be taken into account in assessing monetary conditions, as of course will the exchange rate.

I mentioned a moment ago the need to keep public sector borrowing low. The final outturn for the public sector borrowing requirement last year, 1985-86, was just under £6bn, equivalent to 1¾ per cent of GDP, the lowest level since 1970-71.

In my Budget last year, faced with a massive loss of what now looks to be almost £7bn of North Sea oil revenue, I none the less decided to hold the PSBR for this year, 1986-87, to £7bn, or 1¾ per cent of GDP.

In the event, this year's PSBR looks like turning out at only £4bn, or 1 per cent of GDP: the second successive year of significant undershoot.

This successful outcome is chiefly attributable to the remarkable buoyancy of non-oil tax revenues in general and of the corporation tax paid by an increasingly profitable business sector in particular.

Looking ahead, there is still a degree of uncertainty surrounding oil prices, and I have therefore stuck to the assumption I made last year that the North Sea oil price will average $15 a barrel.

But it is clear that the increased flow of non-oil tax revenues, coupled with the prospective further growth of the economy in excess of the growth of public expenditure, puts the public finances in a very strong position.

I intend to keep it that way.

Degree of fiscal prudence

Last year's MTFS indicated a PSBR for 1987-88 of £7bn, or 1¾ per cent of GDP; and, as the House will recall, I gave an assurance at the time of the Autumn Statement, when I announced a £4¾bn increase in planned public expenditure in 1987-88, that on no account would I exceed that figure.

Indeed, I believe it is right to go below it.

Since its inception in 1980, the MTFS has indicated a steadily-declining path for the PSBR expressed as a percentage of GDP.

We have now reached what I judge to be its appropriate destination: a PSBR of 1 per cent of GDP.

My aim will be to keep it there over the years ahead. This will maintain a degree of fiscal prudence that, until this year, had been achieved on only two occasions since 1950.

Accordingly, I have decided to provide a PSBR in 1987-88 of £4bn.

Inevitably, this greatly diminishes the scope I have this year for reducing the burden of taxation, which of course remains a major objective of Government policy. But I am sure it is right to err on the side of prudence and caution, and to build a still firmer base for the future.

That is the principle on which both I and my predecessor have consistently conducted economic policy these past eight years, and I see no reason to depart from it now.

Seventh year of steady growth

Meanwhile, I would make one further observation, of a different nature. Economic arguments are seldom concluded, one way or the other. This is chiefly because it is unusual for economic policies to be held in place long enough to provide sufficient evidence. But the 1980s have been different; and, as a result, one critically important economic argument has now been concluded, finally and decisively.

Throughout our period of office, our critics have consistently maintained not only that a fiscal stimulus would produce real economic growth, but that without an expansionary fiscal policy sustained growth was impossible.

They were wrong, and they have been proved wrong.

The British economy is now embarking on its seventh successive year of steady growth, at an average rate of getting on for 3 per cent a year.

Expansionism well ignored

And during that time the PSBR, even if privatisation proceeds are added back, has been deliberately and steadily reduced from a shade under 6 per cent of GDP to a little over 2 per cent. Indeed, had I or my predecessor at any time heeded the advice of our so-called expansionist critics, the British economy would never have been in the unprecedently favourable position it is in today.

Before I turn to my proposals for changes in taxation, I have one other change of a specific nature to announce.

In 1979, a few months after the present Government had first taken office, my predecessor announced the abolition of exchange controls, which had been in continuous operation ever since the outbreak of war in 1939.

That bold action has, over the past 7½ years, proved wholly beneficial to the British economy; and I am glad to note that other European countries are now moving in the same direction.

But the Exchange Control Act remains on the statute book. The time has come to repeal it.

The necessary legislation will be contained in this year's Finance Bill.

I note that, in what was clearly intended to be a major speech in New York in September, the Deputy Leader of the Labour Party declared that, and I quote: "The Labour Party has no intention of reintroducing statutory exchange controls."

I am confident, therefore, that the proposal I have just made will be welcomed on all sides of the House.

I now turn to taxation.

First, taxes on business. The fundamental reform of the corporation tax system which I introduced in 1984 came fully into effect last April.

The new system has undoubtedly improved the quality of investment decisions in Britain and is also encouraging more overseas companies to set up here.

During the transition to the new system, companies were given advance notice of the main rate of corporation tax for the year ahead.

Corporation tax to stay at 35%

This helped them in their forward planning, and I intend as far as possible to continue the practice of setting the rate in advance.

Accordingly, I can announce now that the main rate of corporation tax in 1987-88 will be unchanged at 35 per cent — lower than in any other major industrial nation, although the US is now set to emulate us.

The low rate of corporation tax enables me to introduce a further simplification into the system. At present, while companies' capital gains are liable to corporation tax, the amount of such gains is first adjusted by a certain fraction so that the effective rate of tax is the same as that on capital gains made by individuals.

This dates back to the time when the two rates of tax were far apart. This is no longer the case: indeed, the corporation tax rate for small companies is now below the capital gains tax rate.

Tax changes for capital gains

I therefore propose that, from today, companies' capital gains be charged at the appropriate corporation tax rate, without adjustment, save for the indexation which applies to all post-1982 gains.

Hitherto, companies have not been allowed to set payments of advance corporation tax (ACT) against their liability to tax on capital gains. This means that, where companies distribute capital gains as dividends, the gains are in effect taxed twice, once in the hands of the company and once in the hands of the shareholder.

I propose that, under the new system, companies should be able to set ACT payments against tax on capital gains. Taken together, these changes should yield £60m in 1988-89.

I also have some further simplification and rationalisation of the corporation tax system to announce.

At present, some companies established before 1965 do not have to pay their corporation tax until up to 21 months after the end of the period for which it is due, whereas companies established since 1965 have to pay their tax after nine months—and some building societies have to pay sooner still.

This difference in treatment cannot be justified. Moreover, it is open to an abuse which could put the timing of a substantial proportion of the total corporation tax yield at risk.

I therefore propose that all companies and building societies should be treated the same way, with all liable to pay corporation tax nine months after the end of the accounting period on which the tax is due.

The change will be phased in, but I would expect it to yield around £100m in 1988-89.

While business and industry as a whole are doing well, the North Sea oil sector has inevitably been hard hit by last year's oil-price collapse.

My Rt Hon friend the Secretary of State for Energy and I have followed closely the effects on North Sea producers and their suppliers. The industry itself is generally confident about the longer-term prospects; while as for the tax system, not only is it inherently price-sensitive, but the companies themselves have repeatedly stressed their desire for stability.

Small businesses will have the option of accounting for value-added tax annually instead of quarterly, filing a single return at the end of the year.

New reliefs for N Sea producers

However, in the light of the immediate problems, I introduced legislation last autumn to bring forward the repayment of over £800m of advance petroleum revenue tax.

This has already helped many of the smaller and medium-sized companies faced with cashflow difficulties.

I now propose two further petroleum revenue tax reliefs. First, as from today, companies may elect to have up 10 per cent of the costs of developing certain new fields set against their petroleum revenue tax liabilities in existing fields, until such time as the income of those new fields exceeds the costs incurred.

Second, there will be a new relief against PRT for spending on research into UK oil extraction that is not related to any particular field.

I believe that these carefully targeted changes will give a worthwhile measure of relief to the North Sea oil sector.

Last year I put the Business Expansion Scheme on to a permanent footing. However, the present rules still produce too much end-year bunching of BES investments, and hence may crowd out some projects and lead to bad decisions on others.

I propose therefore to permit someone who invests in the first half of the year to claim part of the relief against his previous year's income. This will make it easier for companies to raise BES finance throughout the year.

I have to set the 1988-89 car and fuel benefit scales for those with company cars. The car scale charges still fall well short of the true value of the benefit, and as last year I propose to increase them by 10 per cent.

There will be no change in the fuel scales which, as already announced, will also be used for VAT purposes from April 6.

Training and retraining are vital to a flexible and competitive economy. [Interruption].

At present, training financed by an employer that is related to the employee's current job is allowable against tax for the employer and imposes no tax burden on the employee.

But an employer who is willing to finance the retraining of workers for future employment elsewhere may find that the cost of this is not allowable against tax, and the employee may find that he has received a taxable benefit. I propose to remove both these obstacles.

This should help more workers to acquire new skills for new jobs.

Tax relief for retraining

The past few years have seen a remarkable and welcome growth in the number of small businesses and the self-employed.

The Government has done a great deal to lighten the burdens on this vitally important sector of the economy.

But I am well aware that problems remain, not least in the field of VAT.

Accordingly, I asked Customs and Excise to issue a consultative document last autumn canvassing a number of changes.

In the light of the responses to that document, I have four proposals to make.

Perhaps the biggest problem faced by the small businessman today is the trade customer who is late in paying his bills: so late, sometimes, that VAT becomes due before the bill has been paid.

I can do nothing about late payment; but I can, I hope, do something about the VAT problem.

My first and most important proposal, therefore, is that, as from October 1 businesses whose annual turnover is under £¼m, which means more than half of all traders registered for VAT, will be able to choose to account for VAT on the basis of cash paid and received.

In other words, they will have no liability to pay VAT until they themselves have received the money from their customers.

In addition to easing the cash flow problems caused by late payers, this system will of course provide automatic VAT relief for bad debts.

I have to warn the House, however, that I cannot legally introduce this change without first obtaining a derogation from the European Community's Sixth VAT Directive.

I am applying for the necessary derogation today. The House will note that the upper limit of £¼m is considerably greater than the £100,000 suggested in the consultative document.

VAT rules eased for small business

Second, I propose to give these businesses the option of accounting for VAT on an annual basis. Instead of making quarterly returns, they would make regular payments on account, and then file a single return at the end of the year.

This option, which offers considerable streamlining, will be available next year.

Third, the period within which businesses must apply to be registered for VAT will be extended from 10 to 30 days.

Fourth, there will be changes to the rules for the special VAT schemes for retailers, and more small and medium-sized businesses will be able to make use of the simpler schemes.

I believe that the changes I have outlined, and in particular the option to move to cash accounting, will be widely welcomed by the small business community. The cost will be £115m in 1987-88 and £60m in 1988-89.

VAT threshold to be raised

In addition, I propose to increase the VAT threshold to £21,300, to keep it at the maximum permitted under existing European Community law.

In the light of the responses to the consultative document, I shall not be going ahead either with the withdrawal of the so-called standard method by which retailers calculate their gross taking for VAT, or with the compulsory deregistration of traders below the VAT threshold.

I have one further measure to help the small businessman, unrelated to VAT.

I propose to increase the limit for capital gains tax retirement relief by 25 per cent, from £100,000 to £125,000.

In any ongoing programme of tax reduction and reform, where much still remains to be done, an essential element must always be the elimination of unintended or unjustified tax breaks, which cause rates of tax generally to be higher than they need to be.

Accordingly, I have five proposals to make today to that end.

The first concerns VAT, and has already been the subject of extensive consulation.

The House will be aware that a business that provides a service that is exempt from VAT cannot in turn deduct input tax on its purchases.

But where the activities of a business are in part liable to VAT and in part exempt, the existing rules are excessively generous as to the amount of input tax that can be deducted; and this generosity is being exploited on a growing scale.

VAT avoidance to be checked

The rules must therefore be changed, and the changes, which I proposed to the House last December, will come into effect on April 1.

There will be special arrangements to deal with the problem of brewers' tied houses.

I am also taking this opportunity to exclude a significant number of small businesses from the scope of this provision.

The yield from this change will be some £300m in 1987-88 and £400m in 1988-89.

Second, I propose to change the law so that companies in multinational groups which enjoy dual residence will no longer be able to secure tax relief twice on one and the same interest payment.

Genuine trading companies will not be affected. This change, which will take effect on April 1, follows the similar action recently taken by the US. It will yield £125m in 1988-89.

Continued on next page

The Chancellor sets off from 11 Downing Street for the Commons with his wife Therese watched from an upstairs window by their daughter Emily.

Parliamentary sketch

OUR FLAMBOYANT Chancellor can still pull in a capacity audience even when the outlines of his Budget have been well rehearsed and extensively discussed by the pundits for weeks in advance.

A few minutes before Mr Lawson rose to give his annual performance Tory MP Tim Smith provoked considerable hilarity when he leaned over from the members' gallery above thet chamber to put a question to Kenneth Baker, the Education Secretary.

The Speaker, Bernard Weatherill, quelled the mirth by explaining that he had called Mr Smith because he had been unable to find a seat in the chamber. Mr Baker, craning his neck to see the distant figure in the gallery, amiably declared that it was very nice to receive good advice from on high.

As Mr Lawson got up at the despatch box the sunshine streamed in through the windows symbolically illuminating the man who—according to excited speculation—was about to shower gold on a grateful electorate.

In an instant reaction to the short Budget speech, Neil Kinnock, the Labour Party leader, ironically dubbed him "lucky Lawson" hastily adding that his Budget policies were tough luck on the British public.

As usual, Nigel did not indulge in false modesty. The setting for the Budget was more favourable than for many years . . . seventh year of steady growth . . . public finances sound and strong . . . . unemployment falling.

"Here we go again," groaned Labour MPs as the Chancellor continued with his glowing preamble.

There was also the deft verbal conjuring that we have come to expect from Mr Lawson. The time had come to repeal the Exchange Control Act and the necessary legislation would be contained in the Finance Bill.

He then went on to needle the Opposition by recalling that Roy Hattersley, Labour's shadow Chancellor and deputy leader, had said in New York last September that his party had no intention of reintroducing statutory exchange controls. Therefore he was confident that his proposal would be welcome on all sides of the House.

Those on Labour's front bench had to accept this coup with a good grace despite the glowering of some of the left-wingers behind them who would love nothing better than another dose of strict exchange control.

However, the Chancellor's reputation as a master of presentation at the despatch box took rather a dent when he became bogged down in some arcane passages dealing with taxes on business.

It seemed that he had mislaid part of his brief and, after a moment of confusion and hesitation, his PPS, Peter Lilley, went racing off to the loyal Treasury officials who sit in a box in the corner of the chamber ever ready to give a prompt to their masters.

There was great merriment on the Labour benches at this. Mr Lawson, looking very irritated, waved to Mr Lilley to desist, whereupon the PPS hastily sat down and did his best to look inconspicuous.

John Hunt

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THE BUDGET: The Chancellor's Speech

Challenge to managers to make use of profit-related pay

Continued from previous page

Third, I propose to end the present excessively generous treatment of tax credit relief for foreign withholding tax paid on interest on bank loans. In future, banks will be able to offset this tax credit only against tax on the profit on the relevant loan, and not more widely.

This will bring our rules broadly into line with those in most other countries. The change will apply from April 1 this year for new loans and from April 1 next year for existing loans. It will yield some £30m in 1988-89.

Fourth, the tax treatment of Lloyd's syndicates as it applies to the Reinsurance to Close system is clearly unsatisfactory. I therefore propose to bring it into line with that of provisions for outstanding liabilities made by ordinary insurance companies and, indeed, of comparable provisions made by other financial traders.

I have asked the Inland Revenue to consult urgently with Lloyd's about the details of the legislation. The new rules will first apply to premiums payable for the Lloyd's account which closes on December 31 this year.

Fifth, I propose to implement the Keith Committee's recommendation that interest should be charged in the limited number of cases where an employer does not apply PAYE properly and a formal assessment has to be made to recover the tax.

This change will take effect from April next year, and the yield in 1988-89 is estimated at £45m.

I have one further proposal to make in the broad field of business and tax.

In my Budget last year I suggested the possibility of introducing a measure of tax relief for profit-related pay.

I pointed then to two considerable advantages that might be expected to flow from arrangements which relate pay to profits.

Pay flexibility vital for jobs

First, the workforce would have a more direct personal interest in the profits earned by the firm or unit in which they work; and, second, there would be a greater degree of pay flexibility in the face of changing market conditions. Such flexibility is vital if, as a nation, we are to defeat the scourge of unemployment.

Last July I presented a green paper on profit-related pay in conjunction with my Rt Hon and Noble Friend the Secretary of State for Employment and my Rt Hon Friend the Secretary of State for Trade and Industry. I now propose to introduce a scheme of tax relief broadly along the lines floated in the green paper.

My proposals depart from those in the green paper in one important respect. I am doubling the proportion of an employee's profit-related pay that will be tax free from a quarter to a half, and I am also increasing the upper limits on the relief. So for a married man on average earnings receiving 5 per cent of his pay in profit-related form, the tax relief will be equivalent to a penny off the basic rate of income tax.

The cost will inevitably depend on take-up: it could be £50m in 1988-89, building up to substantially more than that, as take-up grows, and as the proportion of an employee's pay which is profit-related rises.

Challenge to management

Profit-related pay is no panacea. But then there are no panaceas. What it is is a tool to help British business gradually to overcome one of our biggest national handicaps: the nature and behaviour of our labour market.

I am today challenging British management to take advantage of that tool and to make good use of it, for the good of their firm, their workforce and their country.

I turn now to the taxation of savings.

A central theme and purpose of the Government's policies is the creation of a genuine popular capitalism. That means wider home ownership, wider share ownership, and wider pension ownership.

Over the past eight years, the Government has actively promoted the first two, and has now embarked on the third. Home ownership, above all through the council tenant's right to buy; and share ownership, through the rapid growth of employee share schemes; through the massively successful privatisation programme, where Britain has led the world; and most recently through the new personal equity plans, which I announced in last year's Budget and which started up on January 1 this year.

In the first months of the scheme, more than 2,000 people a day took out personal equity plans, many of them first-time investors, as I had hoped.

We know that 63 per cent of households now own their own homes, 2½m more than in 1979. However, there have been no official figures for the more explosive growth of share ownership in Britain over the past eight years.

The Treasury and the Stock Exchange therefore jointly commissioned a major independent survey of individual shareholding in Britain. The results are now available.

They show that there are now some 8½m individual shareholders in this country—amounting to one fifth of the total adult population, and roughly three times the number there were in 1979.

And then there is wider pension ownership.

Two years ago, the Government embarked on a major strategy to extend the coverage of private pension provision and to give individuals far more flexibility and choice in the way they provide for their retirement.

We have already introduced a number of important new measures to that end, and the tax changes I am announcing today will complete the picture.

The cornerstone of the Government's pensions strategy is the introduction of an entirely new means of provision for retirement, developed by my Rt Hon Friend the Secretary of State for Social Services.

This is the personal pension, which will be launched at the beginning of next year, three months earlier than planned.

Personal pensions are an important new dimension of ownership.

They will enable employees—if they so wish—to opt out of their employers' schemes and make their own arrangements, tailored to fit their own circumstances. And they will provide a new opportunity for the 10m employees who at present do not belong to an occupational scheme to make provision of their own and, if they so wish, to contract out of Serps.

In my Budget last year I undertook to bring forward proposals to give personal pensions the same favourable tax treatment as is currently enjoyed by retirement annuities.

These were duly published in a consultative document last November, and the necessary legislation will be contained in this year's Finance Bill.

In addition, to encourage a wider spread of occupational schemes, employers will be able to set up simplified schemes with the minimum of red tape.

This will be particularly welcome to many small employers who have been discouraged by the complexity and open-ended commitment of a full-blown final salary scheme.

And there will be much greater scope for transferring between different types of pension scheme.

Again, the Finance Bill will contain the necessary tax provisions.

Profit-related pay is a tool to help business to overcome one of Britain's biggest national handicaps: the nature and behaviour of our labour market.

Transfer of pensions eased

Finally, I have decided to go beyond the proposals set out in the consultative document in one important respect.

Starting in October, I propose to allow members of occupational pension schemes to make additional voluntary contributions, with full tax relief, to a separate plan of their own choice instead of, as now, being restricted to plans within their employers' schemes.

They will be able to top their pensions up to the present tax approval limits.

The proposals I have outlined—along with the measures my Rt Hon friend has already taken—will make it easier for people to take their pensions with them when they change jobs, which will be good both for labour mobility and for independence.

They will widen the range of choices people can make about their pensions; and will mean that, in future, individuals will have much more control over the way in which their own pension contributions are invested.

Taken as a whole, the changes we have made in the last two years have brought about a radical transformation in the ways people can provide for their retirement. There are new options for employers, and much greater freedom for individuals to plan their own pensions.

This will lead to a further major extension of ownership, as people start to take advantage of the new opportunities.

But the generous tax treatment of pensions can be justified only if it is not abused. I propose, therefore, to introduce some limited changes to the present rules to restrict the excessive relief which can be obtained in some circumstances, particularly by a few very highly paid people.

Tax-exempt life assurance

These will include a stricter definition of final salary and, for all arrangements entered into from today, an upper limit of £150,000 on the maximum permissible tax-free lump sum, coupled with more rigorous rules on how pension and lump-sum benefits can be calculated.

The cost of the overall pensions package will inevitably depend on take-up, but with that proviso is estimated at £65m in 1988-89.

For friendly societies, I have decided to replace the existing tax-exempt life-assurance limit based on the sum assured with a new limit based on annual premiums. I propose to set this at £100 a year, which will greatly increase the scope for the traditional societies to offer life policies to their members.

The tax-exempt limits governing sickness and accident benefits which trade unions provide for their members have not been changed since 1982. With effect from today, I propose to increase them to £3,000 for lump sums and £625 for annuities.

Finally, in this section, I turn to inheritance tax.

In my Budget last year I abolished the pernicious capital transfer tax on lifetime gifts between individuals, which was particularly damaging to the ownership and health of family business.

This year I propose to extend the same exemption from tax, on similar terms, to gifts involving settled property where there is an interest in possession.

This will not, however, apply to discretionary trusts. These changes will be of particular benefit to family businesses and to heritage properties, both of which are often held in trust.

I also propose to make two minor changes affecting business assets.

First, holdings in companies quoted on the unlisted securities market will henceforth be treated for inheritance tax purposes in precisely the same way as holdings in companies with a full Stock Exchange listing.

Second, business relief for minority holdings in excess of 25 per cent in unquoted companies will be increased from 30 per cent to 50 per cent.

The purpose of both these changes is to concentrate business relief more accurately on those assets which could provide funds to pay the tax only at the risk of damaging the business.

Inheritance tax threshold raised

The abolition of the tax on lifetime giving was of the first importance to family businesses.

But I remain conscious that it did little to help the smallest taxable estates, where the family home is often the principal asset.

I therefore propose to make a substantial increase in the threshold for inheritance tax, from £71,000 to £90,000, coupled with a simplification of the rate structure from seven rates to four.

As a result of this change, the number of estates liable to inheritance tax will be cut by roughly a third. The cost will be £75m in 1987-88 and £170m in 1988-89.

Despite this substantial relief, however, and all the other much-needed reliefs that my predecessor and I have introduced since 1979, the House may be interested to learn that the expected yield of inheritance tax in 1987-88, at over £1bn, is three times the yield of capital transfer tax in 1978-1979, an increase in real terms of almost 50 per cent.

I now turn to the taxation of spending.

I have already announced some important changes in value-added tax to prevent avoidance and to help the small businessman. I have no other proposals for major changes in VAT this year.

However, in the light of representations I have received, I have decided to extend slightly the VAT reliefs I introduced last year for certain aspects of charitable work.

I propose to relieve charities from VAT on certain welfare vehicles used by hospices to transport the terminally ill; on installing or adapting lavatory or bathroom facilities in charity homes for the disabled; on drugs and chemicals used by a charity in medical research; and on specialised location and identification equipment employed by mountain rescue and first aid services.

While on the subject of charitable giving, I should remind the House that this year's Finance Bill will increase the limit on donations to charity under the new payroll giving scheme, which starts next month, from £100 to £120 a year.

Differential for unleaded petrol

Next, the excise duties. I propose to maintain the revenue from the taxation of gambling but to make some readjustment within the total. I therefore propose to increase the gaming machine licence duty by about a quarter, which will restore it in real terms to its 1982 level, when it was last increased; and to offset this by abolishing, from March 29, the tax on on-course betting.

I am sure that this measure will be welcomed by the racing and bloodstock industry, as well as consoling those honourable members who have complained to me about the clash this year between Budget day and the Champion Hurdle.

In my Budget statement last year, I undertook to introduce a tax differential in favour of unleaded petrol, to offset its higher production cost. I can now announce that the differential will be 5p a gallon.

This means that the pump price of unleaded petrol should be no higher than that of four-star leaded petrol. The change will take effect from 6 o'clock this evening.

In my 1985 Budget I announced the first stage in the process of increasing the rates of vehicle excise duty on farmers' heavy lorries to bring them into line with the use they make of the public roads.

I introduced the second stage in last year's Budget and propose to complete the process this year. I also propose to increase the rates of duty on trade licences and to rationalise the taxation of recovery vehicles.

I have no further changes to propose this year in the rate of excise duty.

Finally, I turn to income tax.

There is now a worldwide consensus on the economic desirability of tax reform and tax reduction, and in particular the reduction of income tax.

This was demonstrated most recently by the various national policy declarations that emerged from last month's meeting of finance ministers from the major industrial nations.

Lower rates of tax sharpen up incentives and stimulate enterprise, which in turn is the only route to better economic performance.

And it is only by improving our economic performance that we will be able to afford to spend more on public services; only by improving our economic performance that we will be able to create jobs on the scale that we all want to see.

That is why, ever since we first office in 1979, we have consistently sought to reduce the burden of income tax.

We have cut the basic rate of tax from 33 per cent to 29 per cent and sharply reduced the punitive higher rates we inherited from the party opposite.

And we have increased the main tax allowances by 22 per cent more than inflation, taking almost 1½m people out of income tax altogether.

For 1987-88 I propose to raise all the main thresholds and allowances by the statutory indexation factor of 3.7 per cent, rounded up.

Thus the single person's allowance will rise by £90 to £2,425 and the married man's allowance by £140 to £3,795.

Higher, 40%, rate threshold goes up

The single age allowance will rise by £110 to £2,960 and the married age allowance by £170 to £4,675. The age allowance income limit becomes £9,800.

I propose to raise the first, 40 per cent, higher rate threshold by £700 to £17,900, in line with statutory indexation; but the threshold for the 45 per cent rate will go up by only £200 to £20,400. The other higher rate thresholds will remain unchanged.

I have two other changes in allowances to announce. First, I propose to give an additional increase in the age allowance for those aged 80 or over. For them, the increase will be double the amount due under statutory indexation, so that, for the very elderly, the single age allowance will rise by £220 to £3,070 and the married age allowance by £340 to £4,845.

Around 400,000 taxpayers will benefit from this new measure, and up to 25,000 of them will be taken out of income tax altogether.

Second, the blind person's allowance has remained unchanged since 1981, when it was increased by £180 to its present level of £360.

For 1987-88 I propose to increase it by a further £180, to £540.

Finally, I turn to the basic rate of income tax. This is the starting rate of income tax for everyone and the marginal rate for the overwhelming majority of taxpayers.

In my Budget speech last year I reaffirmed the aim set out by my predecessor in 1979, to reduce the basic rate of income tax to no more than 25 per cent. That remains my firm objective.

However, given my decision to use the greater part of the fiscal scope I now have to reduce the Public Sector Borrowing Requirement, that goal cannot be achieved in this Budget.

I can, however, take a further step towards it, as I did last year.

I am therefore reducing the basic rate of income tax by two pence, to 27 per cent.

This reduction, which will benefit every taxpayer in the land, will be worth more than £3 a week to a man on average earnings.

There will, of course, be a consequential reduction in the rate of advance corporation tax, and—as last year—I also propose a corresponding cut in the small companies' rate of Corporation tax from 29 per cent to 27 per cent.

Big relief for small business

Taken together with the income tax change, this will mean a significant reduction in the tax burden on small businesses, which are so important for future growth and jobs.

The income tax changes I have just announced will take effect under Paye on the first pay day after May 17. They will cost a little more than £2bn in 1987-88 over and above the cost of statutory indexation.

The total cost of all the measures in this year's Budget, again on an indexed basis, is a little over £2½bn.

Mr Deputy Speaker, in this Budget I have reaffirmed the prudent policies which, despite a year-long coal strike followed by a collapse in the oil price, have given us the strongest economy we have known since the war.

After a Autumn Statement which substantially increased public spending in priority areas, I have once again cut the basic rate of income tax; a cut which the party opposite are pledged to reverse, if they are given the chance—which they will not be.

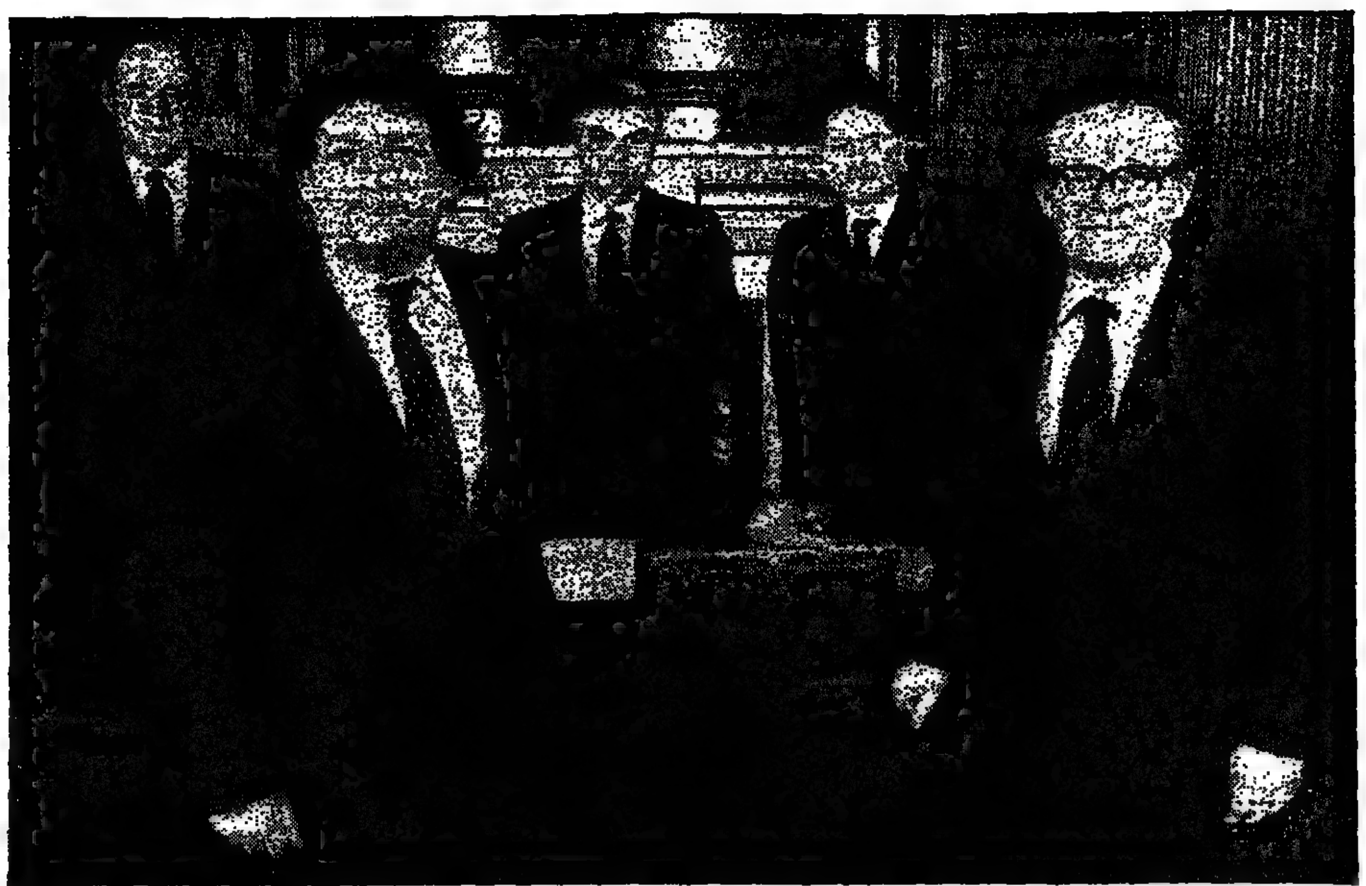
And I have done this while sharply reducing public borrowing; a combination that has eluded successive governments for decades.

This is a Budget built on success, and a Budget for success.

I commend it to the House.

The Chancellor rose at 3.34 pm and sat down at 4.33 pm, having spoken for 59 minutes.

Lower rates of income tax sharpen up incentives and stimulate enterprise, which in turn is the only route to better economic performance.



Mr Nigel Lawson, the Chancellor, with his Treasury ministerial team—front right, Mr John MacGregor, Chief Secretary. (Back row from left): Mr Peter Brooke, Minister of State; Mr Norman Lamont, Financial Secretary; Mr Ian Stewart, Economic Secretary

Kinnock pours scorn on 'bribes Budget'

BY IVOR OWEN

INSTEAD of spraying Britain with across-the-board tax cuts in a "bribes Budget" the Chancellor should have used the money to combat unemployment, promote industrial development, invest more in education and to encourage training and research, Mr Neil Kinnock, the Labour leader, argued in the Commons last night.

Despite claiming that the proposals had little to do with the general good and everything to do with the coming general election, he contended that Mr Lawson had also managed to produce a "remarkable anti-climax"—an apparent reference to the relatively subdued cheer he was accorded by the Tory benches at the end of his speech.

Mr Kinnock maintained that the Chancellor would have been acting in accordance with the wishes of the British people if instead of announcing across-the-board tax cuts he had provided across-the-nation cuts in unemployment.

Instead they had been given a Budget which almost entirely ignored the national need for efficiency in the production of wealth and the national demand for fairness in the distribution of wealth.

Mr Kinnock calculated that the buoyancy of the revenue had given the Chancellor the opportunity to devote £3bn to the creation of 300,000 jobs—the money allocated to tax cuts would secure, at best 80,000 jobs over two years.

He forecast that despite the pre-election largesse, the giveaways and the bribes the Chancellor had invited not celebration but contempt from the British people.

To Labour cheers, Mr Kinnock emphasised that despite the cuts announced by the Chancellor the nation would still be having to bear a bigger tax burden than when Labour left office in 1979.

Tax cuts totalling £15bn would have been needed to restore the position to that inherited by Mrs Thatcher when she became Prime Minister, he said.

The present Government was the biggest taxer in British history and the biggest job destroyer—2m had been added to the unemployment total during its term of office.

Mr Kinnock scoffed: "There has been higher taxation, higher unemployment, and higher crime as well from this Government of law and order."

He complined that the boost to consumption provided by the Budget would result in more finished goods being imported, and suggested that if the Conservatives were returned to office at the general election there would be a repeat of the 1955 experience when the concessions announced in the spring were cancelled out by emergency action taken in the autumn.

Mr Kinnock asserted that Mr Lawson would be prepared to match the cynicism shown by R. A. Butler when he was Chancellor 32 years ago.

THE BUDGET: Details

Substantial rise forecast in investment and non-oil exports

THE financial statement published yesterday outlined short-term prospects for the period to mid-1988. It said:

The economy has been growing at around 3 per cent since last spring as exports have recovered strongly. For 1986 as a whole, recorded GDP growth was about 2½ per cent. A substantial rise in investment and non-oil exports is forecast for 1987, and GDP is expected to grow by 3 per cent, with manufacturing output rising slightly faster.

Employment has continued to grow, particularly since the middle of 1986. There has been a reversal of the previous rising trend in unemployment, and there are good prospects for a continuing decline this year.

Inflation fell last year to 3¾ per cent, its lowest level for nearly 20 years. During 1987, inflation may rise temporarily to a little over 4½ per cent, as last year's movements in petrol prices and in mortgage interest rates affect the year-on-year comparisons. But it is expected to fall back to around 4 per cent by the fourth quarter.

Output in the major industrial countries has been rising by 2½-3 per cent a year since 1984, and is likely to continue at that rate in 1987. Imports by developing countries (other than oil exporters) should rise this year. Markets for UK exports of manufactures may grow a little faster in 1987 than in 1986.

Following the fall in oil prices a year ago, the current account of the balance of payments recorded a deficit of around £1bn in 1986. Both export and import volumes rose sharply in the second half of last year. A further relatively modest current account deficit of £2½bn (some ½ per cent of GDP) is forecast for 1987.

The forecast for the UK assumes that fiscal and monetary policies are set within the framework of the MTFS. It makes the conventional assumption of an oil price of $15 a barrel, as in last year's forecast, and assumes that the exchange rate will remain close to its current level.

Financial conditions: The dollar fell further during 1986, particularly against the Deutschemark and the Yen. These changes will, over time, help to reduce the size of the US current account deficit and the Japanese and German surpluses. As explained above Finance Ministers of six of the leading industrialised nations agreed last month to seek a period of stability in exchange rates. Sterling fell in the summer of 1986, in the wake of the fall in the oil price. It remained steady between October and mid-February, but has since strengthened.

Short-term interest rates in the UK, which rose to nearly 13 per cent in January 1986, fell last spring to around 10 per cent. But with sterling weakening in the summer and autumn and with M0 also indicating an easing of monetary conditions, interest rates were raised to 11 per cent in October; they remained around that level until early March, but have since fallen. Rates in several overseas countries have also been reduced in recent months. Longer-term rates in the UK followed the same broad profile as short-term rates during 1986, falling sharply in the spring and rising in the autumn. In recent weeks they have fallen again, to below 10 per cent.

M0 growth was below the centre of its 2-6 per cent target range in the early months of 1986-87. Its growth quickened from August onwards, reflecting both the falls in interest rates in the spring and the buoyant growth of personal incomes, and moved into the upper half of its target range. More recently it has fallen back again to the middle of its target range.

The growth of £M3 rose to 18 per cent in the early months of 1986-87 and has since remained at about that level. This is some 3 points above the top of its target range, which in turn was set well above the growth of money GDP. Holdings of bank deposits by companies and financial institutions have grown particularly rapidly. The wider aggregates that include building societies' liabilities have grown more slowly, although also at a rate well in excess of the growth of money GDP: the year-on-year growth of PSL2 has been about 13-14 per cent in recent months. Credit has continued to grow strongly, reflecting at least partly the pace of financial innovation and liberalisation.

The growth of broad money must be seen in the context of the strong growth of private sector wealth and strongly positive real interest rates that have made financial assets attractive to hold. Increased competition in financial markets has narrowed the margins between borrowing and lending rates and their borrowing. The considerable increase in liquidity since 1980 appears to have been willingly held, and has been accompanied by lower inflation.

World economy: The world economy has been strongly influenced by the fall in oil and other commodity prices, and by the substantial depreciation of the dollar. Lower import prices have helped to reduce inflation in the industrialised countries and stimulated faster growth in real domestic demand. But developing countries — and oil producers in particular — have suffered a sharp deterioration in their terms of trade.

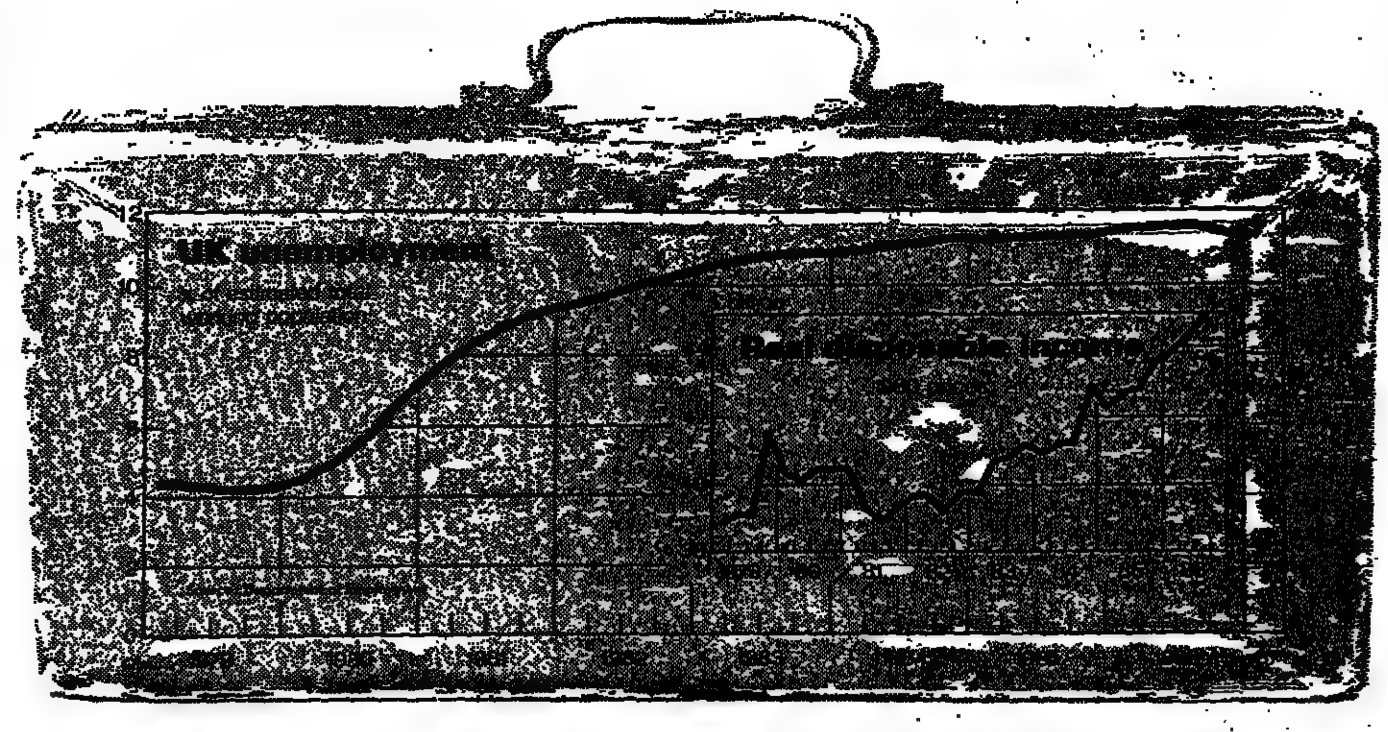
Real GNP in the seven largest OECD countries grew by about 2½ per cent in 1986. Domestic demand grew rather faster, at 3½-4 per cent, with large rises in household incomes and consumers' expenditure. Inflation fell further; and average consumer prices in the seven major countries increased by only 2 per cent in 1986.

Despite the buoyancy of domestic demand in these countries, industrial production has grown only slowly. This has been largely a result of weak export demand, particularly from developing countries, and relatively sluggish growth in investment.

The changes in exchange rates over the last two years are already beginning to have significant effects on trade volumes; but these have not yet been enough to overcome the terms of trade effects (the "J-curve"). As a result, the trade imbalances between the major countries remain large. The surpluses in Japan and Germany have continued to grow, though more slowly; and there has been little sign yet of any substantial reduction in the US current account deficit.

Oil prices fell below $10 per barrel last summer, but rose in the second half of the year following the OPEC meeting in December. They have recently traded in a range of $15-$18 a barrel. Food and industrial materials prices also fell sharply through most of last year, although they recovered slightly in the autumn.

World import volumes are thought to have grown by more than 5 per cent during 1986.



FORECASTS OF EXPENDITURE, IMPORTS AND GROSS DOMESTIC PRODUCT

£bn at 1980 prices, seasonally adjusted

	Consumers' expenditure	General government consumption	Total fixed investment	Exports of goods and services	Change in stocks	Total final expenditure	Less imports of goods and services	Less adjustment to factor cost	Plus statistical adjustment	GDP at factor cost	GDP index* (average estimate) 1980=100
1982	138.3	49.6	39.4	63.3	−1.1	289.4	59.4	30.4	0.4	199.9	100.2
1983	143.6	50.5	41.7	64.7	0.7	301.2	62.8	31.5	−0.2	206.7	103.7
1984	146.7	50.9	45.5	69.1	−0.1	312.1	68.6	32.6	1.8	212.7	106.7
1985	152.0	51.0	46.3	73.1	0.6	323.0	70.7	34.0	1.4	219.8	110.2
1986	159.2	51.6	46.6	75.3	0.6	333.2	74.8	35.0	2.1	225.5	113.1
1987	165.2	52.1	48.4	78.4	1.4	345.5	79.4	36.3	2.4	232.2	116.5
1985 H1	75.0	25.5	23.3	36.7	0.4	161.0	35.2	16.7	0.5	109.5	109.9
1985 H2	76.9	25.5	23.0	36.4	0.2	162.0	35.5	17.2	0.9	110.2	110.6
1986 H1	78.6	25.5	23.3	36.7	0.4	164.5	35.9	17.2	0.6	112.0	112.3
1986 H2	80.6	26.0	23.3	38.7	0.2	168.8	39.0	17.8	1.5	113.5	113.9
1987 H1	81.9	26.0	24.0	39.0	0.6	171.6	39.3	18.0	1.2	115.5	115.8
1987 H2	83.3	26.1	24.4	39.5	0.7	173.9	40.1	18.3	1.2	116.7	117.1
1988 H1	84.9	26.2	24.7	39.7	0.6	176.3	40.3	18.6	1.1	118.8	118.9
Per cent changes											
1984 to 1985	2½	0	2	6	—	3½	3	4	—	3½	3½
1985 to 1986	4½	1	½	3	—	3	6	3	—	2½	2½
1986 to 1987	4	1	4	4	—	3½	6	4	—	3	3
1987 H1 to 1988 H1	2½	1	3	2	—	2½	2½	3	—	2½	2½

* GDP figures in the table are based on "compromise" estimates of gross domestic product, reflecting, for the past, average movements in constant price expenditure, output and income estimates of GDP. Percentage changes are calculated from unrounded levels and then rounded to ½ per cent. Figures for 1987 H1 and beyond are forecasts. Figures for periods up to the end of 1986 are based mainly on the national accounts published earlier (covering periods up to 1986 Q3) and incorporate some revised and later data and forecasts. A full set of national accounts, to end 1986, will be published by the CSO on March 20.

This is somewhat faster than in 1985, largely because of a rise in oil trade as the major oil companies rebuilt their stocks. Developed countries' exports of manufacturers rose by only 3 per cent as buoyant domestic demand in industrialised countries was partially offset by cuts in developing countries' imports.

The outlook for oil prices remains uncertain. The forecast below is based on the assumption that North Sea oil prices average $15 per barrel in 1987-88. Non-oil commodity prices may remain low, with food prices held down by the large surpluses of agricultural production. With rising activity in the major economies, industrial material prices may recover slightly from their current low levels.

The accompanying table shows the forecasts for activity and inflation in the major seven industrialised countries, and for world trade. Inflation is expected to remain low, though it may rise a little from last year's level. In the US inflation may increase slightly as the effects of the fall in the dollar feed through, but the corresponding appreciation of the yen and deutschemark should mean that prices in Japan and Germany rise only very slowly, if at all.

These changes in exchange rates and inflation will affect domestic demand and output. In Japan and Germany they are likely to strengthen domestic demand but weaken export demand; in the US, the opposite effects are likely. In aggregate, domestic demand in the major industrial countries is likely to grow less strongly than in 1986. But GNP growth should be much the same, and industrial production should grow rather faster, helped by a recovery in exports.

World trade in manufactures is forecast to grow rather more quickly in 1987 than in 1986, though the pattern may be uneven. Import demand in the US is likely to slow down considerably, and oil producers are likely to cut back their imports further. But imports by Japan and Germany are expected to increase rapidly. Imports by non-oil developing countries seem likely to rise faster in 1987, after showing little change in 1986; despite continuing debt problems for some of these countries, commodity prices and hence export earnings are expected to strengthen during 1987. Growth in total world trade in 1987 is likely to be slower than in 1986, largely because the rebuilding of oil stocks is not expected to continue.

UK trade and the balance of payments: The UK's competitiveness improved markedly during 1986. Productivity rose fast and the growth of unit labour costs was only a little above that of our main competitors. As a result, the lower exchange rate was almost entirely reflected in improved competitiveness (see accompanying table). Most of the gain in competitiveness seems likely to be maintained over the year ahead.

Prices of most imports rose during 1986, as the effects of the depreciation of sterling more than offset generally weak world prices. Export prices also rose, as exporters took advantage of sterling's decline to improve profit margins. Excluding oil, the terms of trade for goods worsened slightly between 1985 and 1986. Little further change seems likely in 1987.

Exports of manufactures have been growing strongly in recent months. Growth had flattened in the final months of 1985 and exports fell briefly in early 1986, in common with those of other main manufacturing countries. But since then they have recovered strongly, and in the three months to January were 6 per cent above their level a year earlier. With rising world trade and the continued benefits of improved competitiveness, manufactured exports should show further strong growth in 1987. Exports of non-manufactures rose rapidly last year, mainly as a result of exceptionally high grain exports (demand for UK grain exports was strong, partly reflecting drought in Southern Europe); grain exports are unlikely to continue at these levels in 1987. Total exports should grow by about 6 per cent, compared with 2½ per cent in 1986.

UK manufactured export volumes appear to have maintained their share of developed countries' exports in 1986. This reinforces the previous evidence that the declining trend in share of developed countries' exports over the decades up to 1981 has ended.

The surplus on invisibles rose in 1986. Net receipts of interest, profits and dividends (IPD) rose particularly rapidly as a result of the lower payments abroad by North Sea companies and an increase in the surplus on other earnings. The surplus on services fell in 1986, largely due to lower net earnings from tourism. The deficit on transfers was abnormally low last year, reflecting the size and timing of government transactions with the European Community.

The surplus on invisibles is forecast to show a further rise in 1987 with the pound's depreciation during last year helping to increase the sterling value of the earnings on the UK's large stock of foreign assets. The surpluses on services should also benefit from the improvement in UK competitiveness. These higher earnings should more than offset an increase in the transfers deficit to a more normal level.

The current account recorded a £1bn deficit in 1986 following a surplus of £3bn in 1985. Lower net oil earnings and an increased deficit on trade in manufactures more than offset an improvement in invisibles. The forecast for 1987 is for a current account deficit of £2½bn. Details are given in an accompanying table.

The UK's stock of net overseas assets is thought to have risen by the end of 1986 to about £110bn (equivalent to 28 per cent of GDP: its highest recorded level since the war) compared with £80bn at the end of 1985. The increase in the sterling value of assets reflects both the strength of world stock markets and the depreciation of sterling last year.

Demand and activity: The UK economy continued its steady growth in 1986. But there are uncertainties over the precise estimates of the rate of growth, given the differences between the three separate estimates of GDP (based on measures of expenditure, income and output). The output figures — generally recognised as the most reliable short-term indication—show non-oil growth of over 3 per cent between the end of 1985 and the end of 1986, following a brief pause in late 1985.

As in other industrial countries, consumers' expenditure in the UK grew strongly in 1986 as inflation fell and real incomes rose. UK exports were weak in the first half of the year, but recovered strongly in the second half. Imports had been depressed in the first half of the year but also rose sharply in the second half as the economy gained momentum, with particularly marked rises in imports of capital goods. Output growth in the service industries exceeded growth of manufacturing output for the year as a whole; but manufacturing output rose by over 2 per cent between the two halves of the year as exports recovered.

Real personal disposable income is estimated to have risen by about 4 per cent in 1986, and consumers' expenditure by over 4½ per cent. This implies some further fall in the personal savings ratio which has been declining throughout most of the 1980s. One reason is that with lower inflation households have needed to make less provision for the erosion of their past savings. Another factor has been a decline in the growth of employers' contributions to pension funds as a result of the surpluses that many funds have been showing, reinforced by the provision of the 1986 Finance Act: these contributions are treated in the national accounts as a part of the personal income and saving. The buoyancy of consumers' spending may also owe something to the strength of the stock market. In spite of the fall in the savings ratio, higher asset prices and lower inflation have contributed to an increase of over 50 per cent in persons' net holdings of financial assets since the end of 1983.

Real personal disposable income is forecast to rise by around 3½ per cent in 1987. This is slightly less than in 1986 and reflects some narrowing of the gap between earnings growth and inflation. Though there may be some further decline in the savings ratio, consumers' expenditure is expected to grow more slowly than in 1986, at a little under 4 per cent.

The housing market was buoyant in 1986, and private housing investment, both in new dwellings and in improvements to existing dwellings, grew strongly during the course of the year. Private housing starts were about 8½ per cent higher than in 1985; in Greater London, where the largest increases in house prices have been recorded, private housing starts in 1986 were almost 40 per cent up on a year earlier. These higher starts should be reflected in completions and investment in new dwellings during 1987; private housing investment may rise by around 10 per cent in the year as a whole.

The rate of return earned by non-North Sea industrial and commercial companies (ICCs) continued to rise last year; gross trading profits earned in the North Sea fell by more than half. The outlook for companies is favourable, but further substantial rises in profitability will probably have to depend less on depressed world prices of inputs of materials and fuels, and more on firms containing the costs that are under their own control.

Company sector spending was relatively weak in 1986. North Sea investment has been falling in the face of sharply lower profits. Onshore business investment was affected by the bringing forward of capital spending into 1985 ahead of the final stage of the changes in capital allowances announced in the 1984 Budget.

The prospects are for investment to grow rapidly this year. The DTI investment intentions survey published last December pointed to growth in non-North Sea business investment of about 6 per cent, continuing into 1988. The latest quarterly CBI survey of industrial trends indicated a pick up in investment in manufacturing industry, and the forecast assumes that the DTI's intentions survey projections will be broadly realised. An accompanying table provides details of the forecast for total investment and its components.

The economy's stock output ratio fell in 1986 for the sixth successive year. It appears that manufacturers ran down stocks; and though distributors' stock levels rose, the increase was a small one in relation to the increase in the volume of sales. The latest quarterly CBI survey suggested that manufacturers may not now be intending to reduce their stocks of raw materials much further, possibly because of the firmer trend in raw material prices in recent months. An additional source of destocking in 1986 was the exceptionally high exports of grain which reduced the stocks held by the Intervention Board for Agricultural Produce (IBAP).

Stockbuilding is likely to make a positive contribution to growth in 1987, although the forecast is for only a small rise in stocks by the standards of most years in the 1970s, and there is likely to be a further fall in the stock output ration for the whole economy.

The forecast is for a further year of steady growth in 1987. GDP is expected to grow by 3 per cent, around the rate which it was growing in the latter part of 1986. Exports and investment are forecast to grow strongly,

Continued on Page 19

REAL GDP AND MANUFACTURING OUTPUT

	Percentage changes on a year earlier 1986	Forecasts 1987	Forecasts 1988
GDP	2½	3	3½
Non-North Sea output	3½	3½	3
Manufacturing output	1	4	3

SHORT-TERM ECONOMIC PROSPECTS

	Forecasts	Average errors from past forecast*
	% Changes 1986 to 1987	% Points
Output and expenditure at constant 1980 prices		
Domestic demand	3½	0¾
of which:		
consumers' expenditure	4	1
general government consumption	1	1
fixed investment	4	2½
change in stockbuilding (as per cent of level of GDP)	0¼	0½
Exports of goods and services	4	2½
Imports of goods and services	6	2½
Gross domestic product: total	3	0¾
manufacturing	4	2
Inflation	% changes	
Gross domestic product manufacturing	4	2
Retail prices index		
1986 Q4 to 1987 Q4	4	1½
1987 Q2 to 1988 Q2	4	2½
Deflator for GDP at market prices	% changes on a year earlier	
Financial year 1986-87	3	0¾
Financial year 1987-88	4½	1½
Money GDP at market prices	% changes on a year earlier	
Financial year 1986-87	6	1½
Financial year 1987-88	7½	1½
Balance of payments on current account	£bn*	
1987	−2½	3
1988 first half (at an annual rate)	−3	3½
PSBR	£bn*	
Financial year 1986-87	4 (1%)	1 (¼%)
Financial year 1987-88	4 (1%)	3 (1½%)

* The errors relate to the average difference (on either side of the central figure) between forecast and outturn. The method of calculating these errors has been explained in earlier publications and government forecasts (see Economic Progress Report June 1981). The calculations of average errors are based on forecasts made between 1975 and 1985. The errors are after adjustments for the effects of major changes in fiscal policy that were not allowed for in the forecasts.
† Per cent of GDP at market prices shown in brackets.

COSTS OF MANUFACTURING

(per cent changes on a year earlier)

	Unit labour costs	Cost of materials and fuel*	Estimated total costs†	Output prices*
1984	3	8½	5	5½
1985	4	4½	4½	6½
1986	5	−10½	0	4½
1987 Forecast	1½	3	2	4

* Producer prices excluding food, drink and tobacco.
† Including costs of bought in services.

EXCHANGE RATES AND COMPETITIVENESS

	Sterling index (1975=100)	Relative unit labour costs (1980=100)*
1984 Q4	75	80
1985 Q4	80	86
1986 Q4	68	72

* Ratio of UK manufacturing costs to those overseas.

FORECAST AND OUTTURN

	1986 FSBR Forecast	Latest estimate/ forecast	Average errors from past forecasts
Total gross domestic products; per cent change between 1985 and 1986	3	2½	0¾
RPI: per cent increase between the fourth quarters of 1985 and 1986	3½	3½*	1½
Money GDP, per cent change between 1985-86 and 1986-87	6½	6	1½
Current account of the balance of payments in 1986, £ billion	3½	−1*	3
PSBR, financial year 1986-87, £ bn	7	4	5

* Outturn.

OUTPUT PER HEAD

	Annual averages 1964-73	Annual averages 1973-79	Annual averages 1979-86	Per cent changes 1983 Q4 to 1984 Q4*	1984 Q4* to 1985 Q4	1985 Q4 to 1986 Q4‡
Manufacturing	3¾	¾	3½	3½	3	3½
Non-manufacturing†	2	½	1½	1½	2	2½
Whole economy	2½	1¼	2	2	1½	3
Non-North Sea economy	2¼	¾	1½	2	1½	2½

* Figures for 1984 Q4 are adjusted for the estimated effect of the coal strike.
† Excludes public services and North Sea oil and gas extraction.
‡ Partly forecast.

RETAIL PRICES INDEX

	Weight in 1987	Percentage changes on a year earlier 1986 Q4	Forecasts 1987 Q4	Forecasts 1988 Q4
Food	18½	3½	3½	3
Nationalised industries*	6	3½	3	5
Housing	14½	7	9	7
Other	61	2½	3½	3½
Total	100	3½	4	4

* Includes water.

DOMESTIC DEMAND AND GDP

	Percentage changes on a year earlier* (constant prices) 1986	Forecasts 1987	Forecasts First half 1988
Domestic demand	3	3½	3
Exports of goods and services	3 (3)	4 (5)	2 (4)
Imports of goods and services	6 (5½)	6 (7)	2½ (3)
Domestic production: GDP†	2½	3	2½

* Non-oil shown in parentheses.
† Average measure.

VISIBLE TRADE

Per cent changes on previous year

	All goods: Export volume	All goods: Import volume	All goods: Terms of trade*	Goods less oil and erratic items: Export volume	Goods less oil and erratic items: Import volume	Goods less oil and erratic items: Terms of trade*
1985	5½	3½	1½	7	4	1½
1986	3½	6	−5½	2½	6	−1
1987 Forecast	4	7	0	6	5	½

* The ratio of UK export average values to import average values.

WORLD ECONOMIC PROSPECTS

(Per cent changes on a year earlier)

	Estimates 1985	Estimates 1986	Forecasts 1987	Forecasts 1988 First half
Major Seven countries*				
Real GNP	3	2½	2½	3
Real domestic demand	3	3½	3	3½
Industrial production	3	1	2½	4½
Consumer prices	4	2	2½	2½
World trade, at constant prices				
Total imports	3½	5½	3½	4½
Trade in manufactures†	4	2½	3½	4

* US, Japan, Germany, France, UK, Italy and Canada.
† Developed countries' exports weighted by UK markets.

CURRENT ACCOUNT

	Manufactures	Oil	Other goods	Invisibles	£bn Current balance
1985	−3	8	−7½	5	3
1986	−5½	4	−7	7	−1
1987 Forecast	−8	4	−7	8½	−2½

GROSS FIXED DOMESTIC CAPITAL FORMATION

	£bn at 1980 prices 1985	Per cent changes on a year earlier 1985	1986	Forecast 1987
Business*	30.5	4	−3	4
Private dwellings†	9.3	−1	9	8
General government	6.6	−5	7	−1
Total fixed investment	46.2	2	½	4

* Includes investment by public corporations.
† Includes purchase less sales of land by persons, companies and public corporations, other than purchases of council houses.

EMPLOYMENT

Thousands, change in GB seasonally-adjusted employees in employment

	Male	Female	Self employed	HM Forces	Total in employment
September 1983 to September 1984	−22	+190	+233	+2	+406
September 1984 to September 1985	+47	+136	+ 90	−2	+330
September 1985 to September 1986	−25	+136	+ 33*	−3	+136

* Figures for self-employment growth since June 1986 is a projection based on self-employment growth over the previous five years.

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Price stability and higher output is medium-term aim

THE financial statement published yesterday detailed the medium-term financial strategy. It said:

The Medium Term Financial Strategy (MTFS) continues to provide the framework for the Government's economic policy, as it has done since 1980. It is intended to bring inflation down further over a period of years, and ultimately to achieve price stability. It is complemented by policies designed further to improve other aspects of the UK's economic performance.

Economic policy is set in a nominal framework. Monetary and fiscal policies are designed to reduce the growth of money GDP, so bringing down inflation. They are complemented by policies to encourage enterprise, efficiency and flexibility. These policies improve the division of money GDP growth between output growth and inflation, and help the creation of jobs.

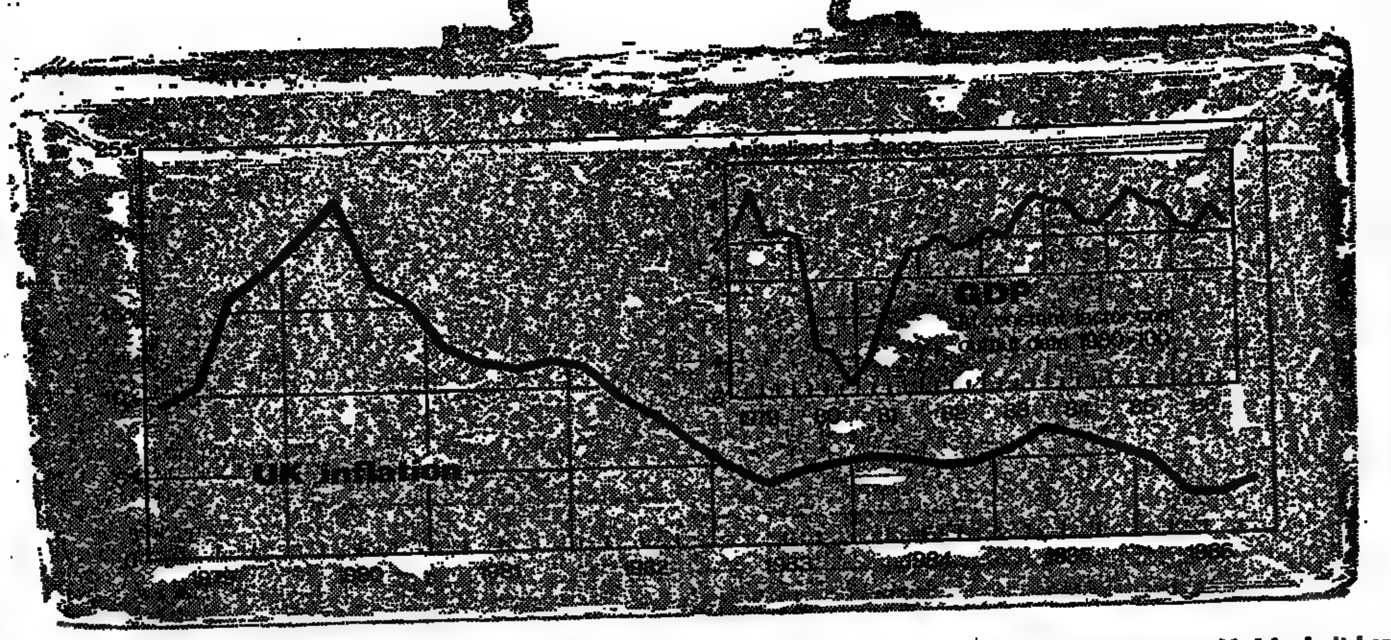
Over the past seven years, money GDP growth has come down from over 20 per cent to around 6 per cent. In real terms the economy has grown at approaching 3 per cent a year on average since 1981, with little variation in the growth rate from year to year. This has been achieved while inflation has come down sharply—from a peak of over 20 per cent in 1980 to 4 per cent now. Productivity is rising rapidly, at a rate which compares very favourably with our major competitors. The economy has weathered the fall in oil prices last year without disruption, and is about to embark on a seventh year of steady growth, combined with low inflation.

Objectives and the framework of policy: Policy is directed at maintaining conditions that will bring about a gradual reduction in the growth of money GDP over the medium term. In the short term there will inevitably be fluctuations, but the Government will aim to avoid departures in the medium term from the path set out in the accompanying table.

The growth of money GDP in 1986-87 is expected to be somewhat below the 6¾ per cent forecast at the time of the last Budget. The forecast for 1987-1988 is correspondingly higher than the 6½ per cent indicated last year. Over the two years to 1987-88 the growth rate is little changed. In the later years the growth of money GDP declines at the same rate as in last year's MTFS.

The Government sets monetary and fiscal policies to achieve monetary conditions which will deliver its objectives for money GDP. A declining path for money GDP growth, as in the accompanying table, requires firm monetary policies supported by low public sector borrowing.

Fiscal policy is reviewed each year at Budget time. Short-term interest rates, which can be varied more frequently, are the essential instrument of monetary policy. They will continue to be maintained at levels necessary to keep monetary conditions on track.



The authorities seek over each financial year to fund the PSBR fully, and no more, by sales of debt outside the monetary sector. This will continue to be the basis for funding policy.

Monetary policy: Monetary conditions are assessed in the light of movements in narrow and broad money, and the behaviour of other financial indicators, in particular the exchange rate. There is no mechanical formula for taking these factors into account; a balance must be struck between the exchange rate and domestic monetary growth consistent with the Government's aims for money GDP and inflation.

Over the past two years, the dollar has depreciated substantially against most other major currencies. At a meeting of finance ministers and central bank governors of six major industrial nations in Paris on February 22, it was concluded that a period of stability would be desirable. Accordingly, the UK and other countries represented there agreed to co-operate closely to that end. The MTFS projections assume that there is no major change in either the sterling exchange rate index or the sterling/dollar exchange rate from year to year.

Last year's MTFS set out the properties desired of a target aggregate for narrow money. In particular, it should have a stable relationship with money GDP. The velocity of Mo has grown relatively steadily over a long period of time. Mo has proved a reliable indicator of monetary conditions.

In principle there is a case for moving to a wider measure of non-interest bearing money, such as the non-interest bearing component of M1. But the velocity of this aggregate exhibits considerable fluctuations which are currently exacerbated by the rapid growth of interest bearing sight deposits, and it is ultrasensitive to interest rate changes. In these circumstances Mo remains the best choice of narrow aggregate for target purposes.

The target range for Mo growth in 1987-88 is 2 to 6 per cent, unchanged from the range indicated in last year's MTFS. Ranges for the later years are illustrative, but show a decline consistent with the declining path for money GDP growth.

If the underlying growth of M0 threatens to move significantly outside its target range in 1987-88 there is a presumption that the Government will take action on interest rates unless other indicators clearly suggest that monetary conditions remain satisfactory.

Broad money has been growing considerably faster than money GDP in recent years. In part this has reflected high real interest rates, which have added to the attractiveness of financial assets in general; and the end of overfunding in 1985 has also contributed. But perhaps most important, the increasing competition in financial markets in recent years has led to rapid growth of private sector liquidity and borrowing.

Private sector borrowing has been rising and is now over 10 per cent of GDP. It has clearly contributed more than public borrowing to upward pressure on real interest rates. These trends are likely to persist, so that broad money growth may continue at around its recent rate, well in excess of the growth rate of money GDP.

The 1986 Building Societies Act marks a further step in the evolving status of building societies. As their behaviour becomes closer to that of banks, wider aggregates which include building society liabilities are likely to continue to be slightly less erratic than £M3.

Both the Chancellor and the Governor of the Bank of England have drawn attention to the increasing difficulties in interpreting changes in broad money. With rapid and pervasive changes in financial practices, there is no simple relationship between broad money growth and money GDP. For this reason, the Government has decided that there should be no formal target for broad money in 1987-88. But the rate of growth of broad money cannot be ignored, and the Government will continue to take into account in assessing monetary conditions.

Fiscal policy: The PSBR in 1986-87 is expected to be about 1 per cent of GDP. This is appreciably less than was set at the time of last year's Budget, in spite of lower oil revenues. After remaining at about 3¼ per cent of GDP between 1981-82 and 1984-85, the PSBR was reduced sharply in 1985-86 and has come down further in 1986-87. Even if privatisation proceeds are added back, it has been lower as a share of GDP in the past two years than at any time since 1971-72.

As usual, the fiscal projections for the next four years set out in the accompanying tables take account of the composition of receipts and expenditure. The path of the PSBR is below that shown in last year's MTFS. The buoyancy of revenues has enabled the Government to achieve its long term objective for the PSBR sooner than would otherwise have been the case.

The PSBR for 1987-88 is set at £4bn, or 1 per cent of GDP, the same as the expected outturn in 1986-87. North Sea revenues in 1987-88 are forecast at about £4bn, slightly lower than in 1986-87. The proceeds from the Government's privatisation programme are expected to be £5bn, as set out in the Autumn Statement.

The PSBR is projected to remain at 1 per cent of GDP thereafter. If privatisation proceeds are added back the ratio gradually falls from 2¼ per cent in 1987-88 to 2 per cent in the final year. The PSBR to be set in future Budgets for the year ahead will as usual be reviewed in the light of circumstances at the time.

For the period to 1989-90, the public expenditure projections in the accompanying table follow the plans set out in the public expenditure white paper (Cm 56). It is provisionally assumed that the planning total will grow by 1 per cent in real terms in 1990-91. Decisions on the planning total for that year will be taken in the 1987 survey. The definition of revenue in the accompanying table is based on the conventional assumptions of constant 1987-88 tax and national insurance contribution rates, and allowances and thresholds indexed from the proposed 1987-88 levels. All changes proposed in the Budget are taken into account.

The assumptions about output growth and inflation that underlie the revenue projections are shown in the accompanying table. They are consistent with the figures for money GDP growth. Oil prices are assumed to average $15 a barrel in 1987-88, and thereafter to remain broadly unchanged in real terms.

Public expenditure: Continued restraint in public spending is a vital element of the Government's economic strategy. General government expenditure has fallen steadily as a proportion of GDP from its peak of over 46 per cent in 1982-83. The plans in the white paper imply a continuing fall in this ratio. This will enable a low level of borrowing to be combined with reductions in the burden of taxation, so improving motivation, efficiency and employment.

Revenue: Over the period as a whole, non-North Sea revenues are assumed to grow broadly in line with non-North Sea money GDP. Government revenues from the North Sea, however, are expected to remain more or less unchanged in cash terms, having fallen sharply in 1986-1987. Thus total general government receipts are projected to increase somewhat less than money GDP.

Public sector borrowing: The projections of government expenditure and receipts are brought together in the accompanying table to provide projections of the general government borrowing requirement (GGBR), the PSBR and the fiscal adjustment.

Conclusion: Events both at home and abroad may modify some of the assumptions on which the projections have been based. But the Government is committed to maintaining progress towards lower inflation, lower public expenditure as a share of GDP and lower taxes in the medium term. The MTFS provides the framework within which the financial policies to achieve this are set.

REVENUE AND EXPENDITURE

Changes from 1986 MTFS projections, £bn

	1985-86	1986-87	1987-88	1988-89	1989-90
Expenditure					
1 Planning total	+0.2	+1	+4½	+5¼	+8
2 Others†	+0.6	—	−1½	−0¼	—
3 General government expenditure	+0.8	+1	+3¼	+5	+8
Receipts‡					
4 North Sea taxes	−0.1	−1½	—	−0¼	—
5 Other taxes and contributions	+1.8	+3½	+4½	+5½	+6½
6 Other†	+0.1	+1	—	−1	−1½
7 General government receipts	+1.8	+3	+4½	+4	+5
8 Implied cumulative fiscal adjustment	—	—	−2	−3	−4½
9 Public corporations' market and overseas borrowing§	+0.1	−1	—	−0¼	−0¼
10 PSBR	−1.1	−2	−2	−2¼	−2

* Rounded to the nearest £½bn from 1986-87 onwards. Classification changes since the 1986 FSBR add about £½bn a year to both expenditure and receipts. The main change is in respect of the treatment of central government VAT refunds.
† Includes changes in debt interest and other items.
‡ The allocation of tax receipts between North Sea and other is affected by the treatment of advance corporation tax set-off.
§ Public corporations' market and overseas borrowings is included in the planning total and in the PSBR, but not in general government expenditure.

CENTRAL GOVERNMENT TRANSACTIONS

£bn	1985-86 Outturn	1986-87 Latest estimate	1987-88 Forecast
Receipts			
Taxes and royalties	100.8	103.9	110.9
National insurance and other contributions	24.5	26.5	28.5
Other	9.7	10.7	10.4
Total receipts	135.0	141.1	149.8
Expenditure			
Current expenditure on goods and services	46.6	49.4	52.0
Current grants and subsidies	72.1	77.1	79.4
Interest	16.1	16.5	17.2
Net lending and capital expenditure, excluding on-lending to local authorities and public corporations	4.2	3.1	2.6
Total expenditure	139.1	146.1	151.3*

* Excluding any allocation from the Reserve.

MONEY GDP GROWTH*

1986-87	1987-88	1988-89	1989-90	1990-91
6	7½	6½	6	5½

* Per cent change on previous financial year. The figure for 1987-88 is a forecast; and in subsequent years the figures describe the Government's broad medium term objectives.

GROWTH OF MO*

1986-87	1987-88	1988-89	1989-90	1990-91
4	2-6	1-5	1-5	0-4

* 1986-87: per cent change on previous financial year. 1987-88: target range. 1988-89 onwards: illustrative ranges.

OUTPUT AND INFLATION ASSUMPTIONS

Percentage change on previous financial year

	1986-87	1987-88	1988-89	1989-90	1990-91
Real GDP					
Non-North Sea	3	3	2¾	2½	2½
Total	3	3	2½	2½	2½
Inflation					
GDP deflator	3	4½	4	3½	3

PUBLIC SECTOR BORROWING*

£bn, cash

	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91
General government expenditure	158.8	165	174	180	188	196
General government receipts	151.9	159	169	178	187	197
Fiscal adjustment from previous years†	—	—	—	—	3	5
Annual fiscal adjustment†	—	—	—	2	2	2
GGBR	6.9	6	5	5	6	6
Public corporations' market and overseas borrowing	−1.1	−2	−1	−1	−1	−1
PSBR	5.8	4	4	4	5	5
Money GDP at market prices	369	392	411	437	464	489
PSBR as per cent of GDP	1.6	1	1	1	1	1

* Rounded to the nearest £1bn from 1986-87 onwards. Further details for 1986-87 and 1987-88 are provided in Tables 1.2 and 6.7.
† Means lower taxes or higher expenditure than assumed in lines 1 and 2.

GENERAL GOVERNMENT EXPENDITURE

£bn, cash

	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91
Public expenditure planning total*	133.6	140	148	154	162	168
Gross debt interest	17.6	17	18	18	19	19
Other adjustments	7.5		7	8	8	8
General government expenditure‡	158.8	165	174	180	188	196
of which Privatisation proceeds§	−2.7	−4¾	−5	−5	−5	−5

* The planning total is assumed to grow by 1 per cent in real terms in 1990-91.
† See paragraph 5.04.
‡ General government expenditure, and its components, are rounded to the nearest £1bn from 1986-87 onwards.
§ Proceeds are assumed to be the same in cash terms in 1990-91 as in 1989-90.

GENERAL GOVERNMENT RECEIPTS

£bn, cash

	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91
Taxes on incomes, expenditrue and capital	114.4	119	125	136	144	152
National insurance and other contributions	24.7	27	28	30	32	34
Interest and dividends	6.5	6	6	6	6	6
Other receipts	6.7	7	7	6	6	6
Accruals adjustment	−0.5	—	—	—	−1	−1
General government receipts*	151.9	159	169	178	187	197
of which North Sea tax†	11.4	5	4	4	4	4

* General government receipts, and its components, are rounded to the nearest £1bn from 1986-87 onwards.
† Royalties, petroleum revenue tax (including advance payments) and corporation tax from North Sea oil and gas production before advance corporation tax set-off). This does not correspond exactly to tax receipts in the same financial year in respect of North Sea production. See footnote 3 to Table 5B.3.

Investment and export rise forecast

Continued from Page 18

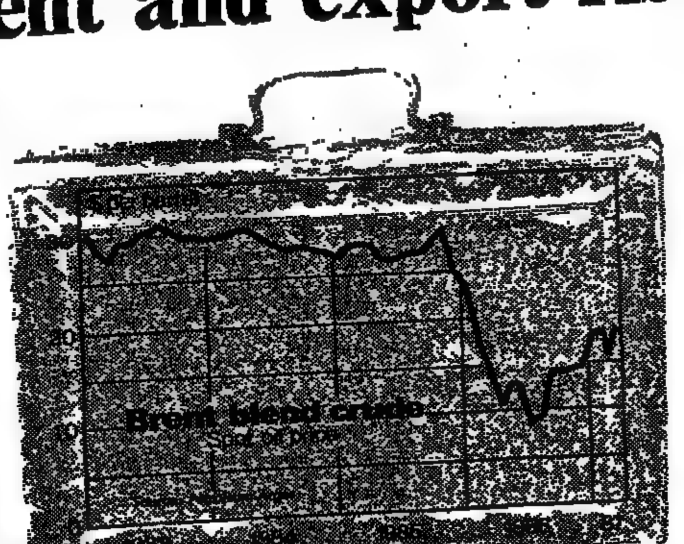
offsetting some slowing down in consumer spending. The prospects for demand and activity are summarised in an accompanying table.

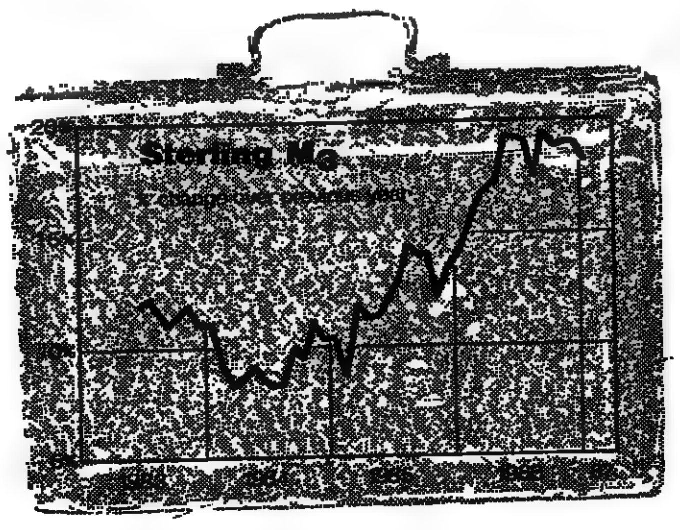
The recovery in manufacturing output seen in the second half of 1986 is forecast to continue, helped by rising exports (see accompanying table). Construction output also rose quite strongly during 1986, and should benefit further from the expected strength of private investment in buildings during 1987.

Inflation: Both retail and producer output price inflation remain close to the lowest levels experienced since the 1960s. The RPI rose by 3½ per cent in 1986, compared to a rise of 6 per cent in 1985. The annual inflation rate reached a low point of 2.4 per cent in July and August: most of its subsequent rise has reflected changes in mortgage interest rates.

The rate of increase of producer output prices has also fallen significantly since the start of 1986, although it has started to edge up again recently, reflecting in part the fall in sterling that took place during the summer and early autumn.

Pay increases in the private sector have fallen slightly in recent months. Settlements in manufacturing industry recorded by the CBI have shown a fall of about 1½ per cent since 1985, although settlements in the private sector as a whole, including those outside manufacturing, may have fallen by less than this. This decline in pay settlements has not yet been reflected in lower recorded growth in average earnings. The current annual rate of growth of earnings reflects settlements made over the whole of the last year (the majority of them still dating from the period when settlements were running at a higher rate than they now are), and is also affected by overtime working, which has risen slightly since the second quarter of 1986.





In spite of the continuing relatively fast growth of earnings, unit labour costs in manufacturing have probably changed only a little since the first quarter of 1986 as productivity has risen sharply. Between 1985 and 1986 unit labour costs in manufacturing rose by about 5 per cent. For the first time since 1983 unit labour costs in manufacturing in the UK are expected in 1987 to rise no faster than those in the other major industrial nations.

The lower pay settlements recorded in recent months should lead to lower growth in earnings. Nevertheless employees will enjoy a further substantial rise in real earnings in 1987.

The high rate of productivity growth currently being recorded should contain the growth in unit labour costs to below 4 per cent for the non-oil private sector as a whole, and to around 1½ per cent for manufacturing industry.

The figures in an accompanying table suggest that profit margins in manufacturing have widened markedly in recent years. It seems likely that industry will hold on to the gains it made last year with the help of falling input costs, and profit margins may widen further during 1987 given the forecast low growth in unit labour costs. In the longer run the higher level of profitability should lead to more investment, greater capacity, higher productivity, and hence lower inflationary pressure.

The year-on-year rate of inflation is likely to continue to edge up over the next few months, perhaps rising temporarily to a little over 4½ per cent. This will mainly reflect the relative movements in 1986 and 1987 of petrol prices (which fell during the first half of 1986 to a low point in July and early August) and mortgage interest rates. But inflation should then fall back in the second half of the year, to around 4 per cent in the fourth quarter (for details, see accompanying table). The tax and price index (TPI) is expected to show a much smaller increase than the RPI during 1987, peaking at around 3 per cent during the summer, and probably falling to around 2 per cent by the fourth quarter.

The GDP deflator measures the price of domestic value added—principally unit labour costs and profits per unit of output—and excludes import prices. It is sensitive to movements in North Sea profits, which may have fallen by more than half in the current financial year: as a result the deflator for GDP at market prices may have risen by only 3 per cent in 1986-87. Given the assumption of a $15 oil price and with the further rise in non-North Sea profits now foreseen, the GDP deflator may rise rather faster in 1987-88 than in the previous year, perhaps by around 4½ per cent.

Productivity and the labour market: Results from the 1984 Census of Employment became available in December. These showed that the change in the number of employees since the last Census in 1981 had been very close to provisional estimates based on the results of successive Labour Force Surveys. Results from the 1986 Labour Force Survey have led to minor upward revisions to figures for employees, and to a downward revision to the figure for growth in self-employment between mid 1985 and mid 1986. Growth since March 1983 in the employed labour force in Great Britain is now estimated at 1,040,000. An accompanying table shows changes in employment over the last three years for which figures are available.

Growth in employment averaged only about 20,000 a quarter in the first half of 1986, reflecting the period of sluggish output growth at the end of 1985 and in early 1986. The third quarter saw employment growing at almost three times this rate as the economy quickened again. Recent monthly figures for manufacturing employment point to a further pick up in total employment growth in the fourth quarter.

While confirming earlier figures for the total number of employees the Census results show some differences from the previous figures in the composition of changes in employment. Full-time female employment has risen by much more, and part-time female employment by much less than previously estimated; employment outside manufacturing has risen more than previously thought while manufacturing employment has shown a corresponding greater decline. The estimate of productivity growth in manufacturing since the 1979 cyclical peak has been raised by about ½ per cent a year on average. Underlying growth in manufacturing productivity now seems to be back to the rate experienced in the 1960s.

Seasonally adjusted adult unemployment in the United Kingdom fell by over 100,000 in the six months to January, the largest six month fall since 1973. The continued strength of the UK economy means that employment growth is likely to pick up further during the next year, and the outlook for a continuing fall in unemployment is promising. The training and counselling measures announced and implemented over the past year are helping the long term unemployed in particular. A sustained major reduction in unemployment will continue to depend on moderation in pay settlements.

Forecast and outturn: An accompanying table compares the main elements of the forecast published in the 1986 FSBR with the outturn or latest estimate.

Inflation in the fourth quarter of 1986 was in line with the forecast made a year ago. GDP growth has probably been a little below forecast, although the data on which latest estimates for 1986 are based are still very uncertain. Non-oil tax revenues have grown faster than forecast, and the PSBR in 1986-87 is likely to turn out about £3bn below last year's forecast. The largest error made last year was on the current account; the main factors here were that growth in UK export markets turned out well below what had been expected a year ago while the terms of trade worsened more than forecast.

This year's forecast is summarised in an accompanying table.

Risks and uncertainties: No forecast is complete without an indication of error margins. An accompanying table sets out the average errors from past forecasts, alongside the forecasts themselves. These average errors provide an indication of possible errors in the current forecast. Those items which represent the relatively small balance between large flows in either direction are particularly subject to error. For example, the flows on either side of the PSBR, including the revenues of the public corporations, are about £200bn; and for the current account of the balance of payments exceed £150bn.

THE BUDGET: Details

Income tax cut and framework for personal pensions outlined

THE financial statement and Budget Report published yesterday announced the following proposed tax changes:

The main tax changes proposed in the Budget are summarised below. A full list of changes is given in the accompanying table.

Income tax: The basic rate of income tax will be reduced to 27 per cent.

The main income tax personal allowances will be increased in line with the statutory indexation provisions (based on the increase of 3.7 per cent in the RPI in the year to December 1986). This will mean that: the single person's and wife's earned income allowances will rise from £2,335 to £2,425; the married allowance will rise *from £3,655 to £3,795; the age* allowance will rise from £2,850 to 2,960 (single) and from *£4,505 to £4,675 (married)* and the income limit from £9,400 to £9,800: the additional personal allowance and widow's bereavement allowance will rise from £1,320 to £1,370.

For those aged 80 and over the age allowance will be increased by twice the amount due under statutory indexation to £3,070 (single) and £4,845 (married).

The allowance for the blind will be increased from £360 to £540.

Car benefit scale charges will be increased by 10 per cent from April 6 1988.

Profit-related pay: An income *tax relief* will be introduced for employees in profit-related pay (PRP) schemes which meet *certain conditions and which have* been registered with the Inland Revenue. The maximum amount *of PRP eligible for relief* will be £3,000, or 20 per cent of total PAYE pay, whichever is lower. Relief will be given on half the eligible amount.

Excise duties: The duty on unleaded petrol will be reduced by the equivalent of about 5p a *gallon (including VAT).*

On-course betting duty will be abolished.

The rates of duty on gaming machine licences will be increased *by between* 25 and 28 per cent.

Vehicle excise duty: The rates of duty on farmers' heavy goods vehicles over 7.5 tonnes will be increased by between 5 and 24 per cent. The rates of duty for trade licences will be increased *to £85 for cars* and £17 for motor cycles. A new taxation class will be created for recovery vehicles. The duty rate will be £50.

Inheritance tax: From Budget day the threshold will be increased from *£71,000 to £90,000* and the number of chargeable bands reduced *from* seven to four. The new scale will be as follows:

Lifetime *gifts of* "interests in possession" in settled property will be exempt from *inheritance tax if the donor survives* for seven years. Measures against abuse will be incorporated.

Trust property in which there is an interest in possession will not be taxed on the death of a life tenant if the property is put into a heritage maintenance fund not later than two years after the death.

Property accepted in lieu of tax may be valued at the date *of the offer*, and *interest* will cease to accrue on that date, at the option of the offeror.

From Budget day, the rate of business *relief on transfers of* holdings of more than 25 per cent (other than control holdings) in unquoted companies will be increased from 30 to 50 per cent. Companies whose shares are traded on the Unlisted Securities Market will from Budget day be treated for inheritance tax purposes in the *same way as companies with* a full listing on the Stock Exchange.

Business taxation: The small companies' rate of corporation tax will be reduced to 27 per cent. The rate of advance corporation tax (ACT) will go down automatically to 27/73rds *as a consequence of the reduction* in the basic rate of income tax. The main rate of corporation tax for the financial year 1987 will be 35 per cent.

All companies, building societies and other bodies chargeable to corporation tax will become liable, after a phasing-in period, to pay the tax nine months after the end of the accounting *period for which the* tax is due.

From Budget day there will be changes in the tax treatment of companies' capital gains. They will be taxed without adjustment, other than the indexation that applies to post-1982 gains, at the rates of corporation tax applying to other profits (including, where appropriate, the small companies' rates) and credit for payment of ACT will be allowed *against liability to tax on them.*

From April 1 1987 credit for any *foreign* withholding tax actually paid or deemed to be paid on interest received by banks *on any new loan made by* them to a *non-resident* will be allowed only against corporation tax due on the profit from that loan. This rule will apply to existing loans with effect from April 1 1988.

From April 1 1987 dual resident companies will not be allowed a double deduction for interest payments. This change will not apply to trading companies.

Legislation will be introduced for a new scheme, known as Pay and File, to streamline the assessment and collection of corporation tax. The scheme will be implemented when the necessary computerisation is complete.

Oil taxation: Two relaxations of the expenditure relief rules are proposed: companies may elect to have up to 10 per cent of the *costs of developing* certain new fields set against their petroleum revenue tax (PRT) liabilities on existing fields; certain research expenditure which is not specifically related to a particular oil field may after three years be set against PRT liabilities *in any field.*

A minor technical change is also proposed to the rules for allocating oil allowance.

One effect of Section 16 of the Oil Taxation Act 1975 is to restrict the ability of oil companies to set off payment of ACT against tax due on ring-fence profits. It is proposed that such companies should be allowed limited carry-back of surrendered ACT. It will also be possible for a 50/50 joint venture to surrender ACT to a ring-fence company owned by the venture.

Where an oil extraction company uses the issue of preference shares to raise capital which is not used for oil extraction purposes, there will be restrictions in the extent to which ACT paid on certain dividends on those preference shares can be set off by the company against ring-fence profits.

Business Expansion Scheme: Two changes will be made to the Business Expansion Scheme: for investments made in the first half of the tax year, the investor will be able to opt for part of the relief to be given for the previous year; the rules governing the special relief for film production will be relaxed.

Pensions: In the light of the reform of social security, a new tax regime for personal pensions (i.e. pensions taken out by an individual independently of his employer) will be introduced, to replace and extend the present, broadly similar, legislation for retirement annuities. The new regime will come into effect next year.

The main features will be: benefits based on the actual return from invested contributions (money purchase); no limits on pension benefits; a tax-free *lump sum, subject to* a limit; annual contributions limited to 17.5 per cent of earnings (more for people over 50) with employers free to contribute within the limit; tax relief for contributions, tax exemption for fund income and gains.

Employees will be able to contract-out of the State Earnings Related Pension Scheme (SERPS) by joining a personal pension scheme, to which the DHSS will pay a *minimum* contribution.

Employers will be able to establish simplified occupational schemes which may be "final salary" or defined contribution." Under the new social security rules, the latter may be "contracted out money purchase" schemes.

There will be greater transferability between *different* types of pension arrangements.

Members of occupational pension schemes will be able to pay additional voluntary contributions—on which tax relief will be available up to the present limits—to arrangements outside their employer's scheme.

A number of changes in current pensions law and practice will be made to counter certain types of exploitation, particularly by high earners. These include a limit on *lump sums* of £150,000; changes in the rules on "final salary" for pension purposes; changes in the rules relating to accelerated accrual of benefits.

Training: Employees who are about to change their jobs will be *exempted* from income tax on the cost of training in new work skills provided by their employer.

Employee share schemes: The 1980 and 1984 employee share option schemes will be changed to make it possible, in the event of a takeover, for participants to exchange their existing share options *for* options over shares in the acquiring company.

Capital gains tax: The capital gains tax annual exempt amount is to be increased in accordance with the statutory indexation *provisions* from £6,300 to £6,600 in the case of individuals, and from £3,150 to £3,300 in the case of most trusts.

The ceiling for retirement relief will be raised from £100,000 to £125,000.

Lloyd's: reinsurance to close: *Legislation is proposed to bring* the tax treatment of members of Lloyd's into line with the normal tax treatment of provisions for outstanding liabilities made by ordinary insurance companies and of comparable provisions made by other financial traders. These proposals will affect the tax treatment of Lloyd's reinsurance to close and will first apply to premiums payable in respect of the 1985 Lloyd's account closing at *December 31 1987.*

PAYE and subcontractor schemes: Changes will be made to the PAYE and subcontractor deduction schemes, including the *charging* of interest where formal assessments have had to be made of tax deducted under these schemes. This follows recommendations of the Keith *Committee.*

VAT: From March 18 1987 the registration limits will become £21,300 per annum and £7,250 per quarter.

Subject to the Government's obtaining the necessary derogation from the European Community, *businesses* with annual turnover below £250,000 are to be given the option of accounting for VAT on the *basis* of payments received and made. This optional system of cash accounting is intended to come into effect on October 1 1987.

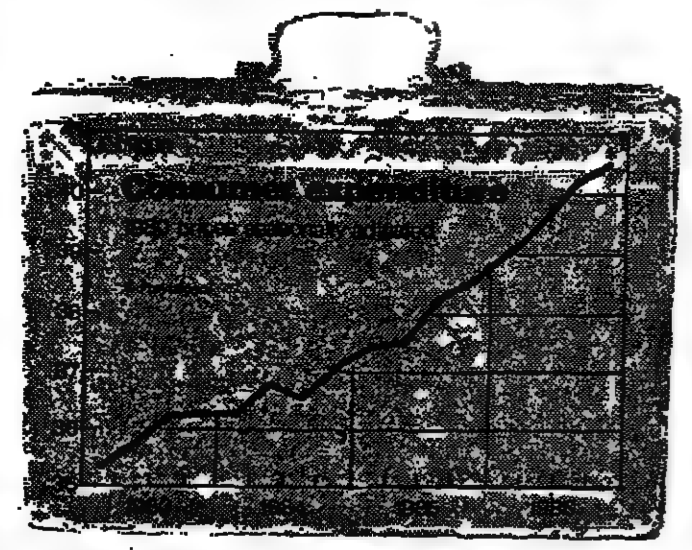
An optional system of annual accounting for VAT is to be introduced with advance payments based normally on the previous year's tax *so* that businesses with annual turnover below £250,000 would need to send only one return to Customs each year.

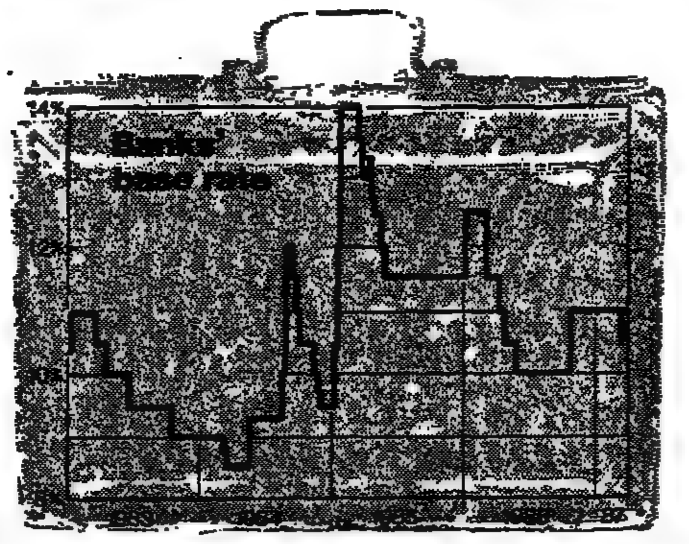
The period within which businesses must notify and be registered for VAT will be extended to 30 days.

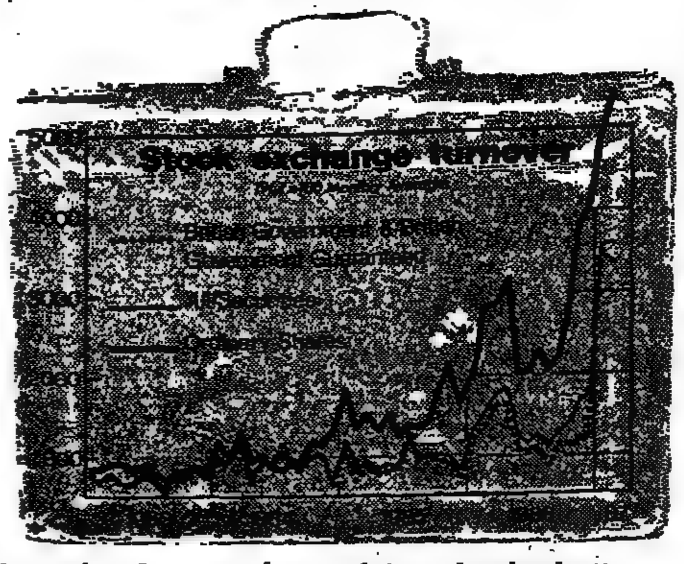
The simpler VAT schemes for retailers will be made available for use by many more small and medium-sized businesses.

The rules on VAT input tax deduction by partly exempt traders are to be *revised* so as to curb tax avoidance and to prevent distortion of competition.

VAT relief for charities will be extended to certain welfare vehicles used by hospices to transport the terminally ill; to *specialised location* and identification equipment used by rescue and first aid services; to goods donated for export by a charity for relief of distress or animal welfare; to installing or adapting bathroom, washroom or lavatory facilities for the handicapped in charity residential homes; and to drugs and chemicals directly used by a charity in medical care or research.







INCOME TAX THRESHOLDS

Rate of tax per cent	Taxable income £
40	17,901-20,400
45	20,401-25,400
50	25,401-33,300
55	33,301-41,200
60	Over 41,200

INHERITANCE TAX

Rate of tax per cent	Band of chargeable value £000
0	0-90
30	90-140
40	140-220
50	220-330
60	Over 330

DIRECT EFFECTS OF CHANGES IN TAXATION

£m

	Estimated effect on receipts in: 1987-88 Changes from a non-indexed base	1987-88 Changes from an indexed base	1988-89 Changes from an indexed base
INLAND REVENUE			
Income tax			
1 Reduction of 2p in basic rate	−1,910	−1,910	−2,690
2 Increase in single allowance of £90 and married allowance of £140	−610	—	—
3 Increase in additional personal allowance and widow's bereavement allowance of £50	−5	—	—
4 Increase in age allowance of £110 (single) and £170 (married) and income limit of £400	−80	—	—
5 Further increase in age allowance of £110 (single) and £170 (married) for those aged 80 and over	−10	−10	−10
6 Increase in blind person's allowance of £180	*	*	*
7 Increase in basic rate limit of £700 to £17,900	−60	—	—
8 Changes to further higher rate thresholds	−5	+40	+80
9 Profit-related pay	*	*	−50
10 Fringe benefits—car scale	—	—	+30
11 Income support paid to the unemployed and to strikers	—	—	*
12 Approved employee share schemes—takeovers	*	*	*
13 Payroll giving to charities—increase in donation limit to £120 a year	*	*	*
14 Legislation on Lloyd's reinsurance to close	—	—	†
15 Apportionment of income etc of close companies	*	*	*
16 Foreign partnerships—removal of possible anomaly	*	*	*
Income tax and capital gains tax			
17 Business Expansion Scheme changes	−5	−5	−5
18 Amendment to offshore fund rules	*	*	*
Income tax and corporation tax			
19 Personal pensions	*	*	−25
20 Other pensions changes	*	*	−40
21 Friendly societies	*	*	*
22 Keith Committee—PAYE and subcontractors	+5	+5	+45
23 Interest payments between related companies	*	*	*
24 Increase in exemption limits for trade union provident funds	*	*	*
25 Capital allowances — extension of assured *tenancies relief*	*	*	*
26 Relief for the costs of training	*	*	*
Income tax, corporation tax and capital gains tax			
27 Securities—Financial Services Act consequentials	—	—	—
Income tax, corporation tax, capital gains tax, inheritance tax and stamp duties			
28 Unit trusts—Financial Services Act consequentials	—	—	—
Corporation tax			
29 Reducion in rate of ACT to 27/73rds *of the amount of the distribution*	−290	−290	−120
30 Reduction in small companies' rate to 27 per cent	*	*	−45
31 *Harmonisation* of payment dates for Corporation tax	*	*	+100
32 Taxation of indexed gains in full at normal corporation tax rates	*	*	+80
33 ACT set-off against tax companies' gains	*	*	−20
34 Dual resident companies—non-allowance of double deduction	*	*	+125
35 Foreign withholding tax on interest received by banks	*	*	+20
36 Relaxation of set-off of surrendered ACT against ring fence profits	−20	−20	−20
37 ACT set-off against ring fence profits (certain preference share dividends)	—	—	+15
38 Building societies—groups of companies and capital gains	*	*	*
39 Pay and File	—	—	—
40 Amendment to controlled foreign companies legislation	+10	+10	+10
Corporation tax and capital gains tax			
41 Financial futures and traded options	—	—	*
Oil taxation			
42 10 per cent cross field allowance	−5	−5	−15
43 Petroleum revenue tax relief for certain research expenditure	—	—	—
44 Oil allowance—final adjustments	*	*	*
Capital gains tax			
45 Indexation of annual exempt amount	—	—	—
46 Retirement relief	—	—	*
Inheritance tax			
47 Changes to rates and bands	−90	−75	−170
48 Business relief and Unlisted Securities Market	*	*	*
49 Abolition of lifetime charge on interest in possession trust property	*	*	*
50 Heritage maintenance funds	*	*	*
51 Property accepted in lieu of tax	*	*	*
Stamp duties			
52 Changes to stamp duties and the reserve tax	*	*	*
TOTAL INLAND REVENUE	−3,080	−2,265	−2,270
CUSTOMS AND EXCISE			
Value added tax			
53 Revised treatment of tour operators' margins	—	—	+20
54 New rules on deduction of input tax by partly exempt traders	+300	+300	+400
55 Cash accounting for small businesses	−100	−100	−10
56 Increase in registration limits	*	—	—
57 Revised registration requirements	−15	−15	−25
58 Annual accounting for small businesses	—	—	−25
59 Simplified retail schemes	—	—	—
60 Removal of loophole on imported services	*	*	+5
61 *Reliefs for charities*	−5	−5	−5
Excise duties			
62 No change *in rate of spirits duty*	—	−25	−30
63 No change in rate of beer duty	—	−60	−70
64 No change in rate of duty on cider and perry	—	*	*
65 No change in rates of wine and made-wine duties	—	−20	−20
66 No change in rates of duty on petrol etc	—	−190	−210
67 No change in rate of duty on derv	—	−50	−55
68 No change in rates of minor oil duties	—	−5	−5
69 No change in rates of tobacco products duties	—	−105	−110
70 Duty differential in favour of unleaded petrol	*	*	*
71 Abolition of on-course betting duty	−20	−20	−20
72 Increase in rates of gaming machine licence duty	+20	+20	+20
TOTAL CUSTOMS AND EXCISE	+180	−275	−140
Vehicle excise duty			
73 No change *in VED* on car, light van and main lorry rates	—	−95	−100
74 Increases in certain other VED rates	+5	+5	+5
75 Recovery vehicles	*	*	*
76 VED enforcement measures	*	*	+5
Other			
77 Bus fuel grants	—	+5	+5
TOTAL VED AND OTHER	+5	−85	−85
TOTAL CHANGES IN TAXATION	−2,895	−2,625	−2,945

* = Negligible. — = Nil.
† Details of measure subject to consultation, so no estimate possible at present.

How the figures in the above table have been calculated: [illegible]

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THE BUDGET: Details

REVENUE CONSULTATIVE DOCUMENT

Review announced of avoidance in company share schemes

AFTER the Chancellor sat down, the following statement was issued by the Inland Revenue on employee share schemes.

The Chancellor has announced a review of section 79 FA 1972, in the light of which he will consider whether it is possible to bring forward proposals for improving and simplifying this legislation consistent with its underlying purpose. This note explains the proposed review and invites representations from companies, their advisers and professional bodies with an interest in this matter.

Section 79 is an important anti-avoidance provision. It is concerned with the situation where companies pass to their employees benefits—in the form of share or share related incentives—which in reality are part of the employee's remuneration, but which are dressed up as "capital" and so seek to avoid the charge to income tax on that remuneration. For this purpose it charges to income tax any growth in the value of shares (or an interest in shares) acquired by employees or directors by reason of their employment where the shares are subject to certain kinds of defined restriction, or are of a class that is not widely available other than to the employees. The section also brings into tax certain other benefits which employee shareholders may receive from the company in respect of their shares, where those benefits are not otherwise chargeable to income tax. But it does not in general affect normal shares in which employees or directors invest on normal terms.

There have, however, been numerous representations about the operation of section 79. It has been criticised for its length and complexity. Some have suggested that the provisions are too wide-ranging, and penalise bona fide arrangements. Others suggest that the provisions are in some respects in need of tightening up.

The aim, therefore, is to conduct a thorough review of the section, and to consider the scope for improvement and simplification consistent with its underlying purpose. The review is to be carried out by the Inland Revenue with the assistance of a small informal group of outside practitioners who have expertise in this area, and with the benefit of views and suggestions received in response to this consultative document. If in the light of the outcome of the review ministers felt able to bring forward proposals for change, the intention, time permitting, would be to issue a further consultative document—with draft clauses if possible.

Background:

Section 79 had its origin in a need to counter a variety of share incentive arrangements which were developed in the 1960s to confer benefits on directors and employees free from income tax. These were becoming widespread and there was a prospect of very considerable tax avoidance. It was, therefore, considered necessary to introduce legislation which was specifically designed to counter such avoidance. The original provisions have subsequently been extended on a number of occasions to counter use of various more sophisticated avoidance devices that have emerged from time to time.

The section applies where employees or directors ("employees") receive shares by virtue of their employment. But it dos not apply to shares which they acquire as ordinary investors. Nor, with certain very limited exceptions, does it apply to shares acquired under an approved share or share option scheme.

The section focuses on two main situations, viz:

● Where the shares in question are subject to certain special restrictions, of a kind that might be used initially to depress the value of the shares but which could later be removed, thus restoring the value of the shares to that of the company's shares in general issue and thereby giving the employees an essentially artificial benefit.

● Where the shares are of a special class not generally available other than to the employees, and which could be used by the company to provide the employee shareholders with special benefits.

The main charge, on the growth in value of such shares, arises either seven years from the date of their acquisition or, if earlier, when they are disposed of or the restrictions are removed. The charge applies to the acquisition of shares, and to the acquistion of an interest in shares (for example, an interest in shares held on the employee's behalf under a trust), but not to the holding of options over shares (gains on the exercise of which are chargeable under separate statutory provisions).

There are two major exemptions from the growth in value charge, designed to exclude from its ambit what are essentially "normal" shares acquired on "normal" terms. There is no growth in value charge where, immediately after the acquisition, the shares are not subject to any of the prescribed restrictions (or exchangeable for shares subject to such restrictions) and one or other of the following tests is satisfied.

● The "majority test", which requires that the majority of shares of the same class, excluding shares held by or for the benefit of an associated company, were acquired otherwise than by the employees or directors in that capacity.

● The "control test," which requires that the majority of shares of the same class (again excluding shares held by or for the benefit of an associate company) must have been acquired by present or past employees or directors of the company concerned (or of a subsidiary), and who as holders of those shares were able to control the company.

Where either of the above tests is satisfied, and the shares are not subject to the defined kinds of restriction, there is unlikely to be scope for abuse. For example, the "majority test" is likely to deter companies whose real aim is to confer special benefits on their employees because of the greater cost to them of having to give similar benefits to all other shareholders as well if the benefit to the employees is to be exempt from tax under section 79. As regards the second test, it would clearly be wrong to penalise employees of companies whose share structures were designed intentionally to keep control in the hands of the employees and directors. But they would not in those circumstances be able to satisfy the "majority test" and so the "control test" provides an alternative basis for exemption. This latter test similarly acts as a safeguard against abuse—if the employees have majority control there is unlikely to be any advantage in shifting value from one share held by an employee to another such share.

Some possible changes for consideration:

Many criticisms are of a general nature. The section has, for example, been criticised for being too complex; though others have questioned whether this is unavoidable given the diversity and complexity of arrangements that may be adopted in practice and which it has to cover. Others have suggested that it is too restrictive, and others again say that it is not restrictive enough. While general criticisms of this kind need to be considered carefully it will clearly also be desirable to try to focus in the review on specific points of difficulty and on possible solutions for dealing with them.

One suggestion that is sometimes made is that the section should be replaced altogether with provisions specifically designed to operate only in cases that were motivated by avoidance or abuse. There are a number of provisions in the existing tax code based on some kind of motive or main purposes test. Experience suggests, however, that such tests are in practice not easy to operate and carry significant compliance costs for all concerned. There could be particular difficulty and uncertainty where (as in a number of types of situation discussed in this note) the nature of the transaction will only be clear in the light of what is done with the share in the years after the employee or director has acquired it. An important point for consideration, therefore, would be whether—in the interests of taxpayers and the Revenue alike—it was better for the rules of the necessary anti-avoidance provisions here to be certain and clear cut, rather than being based on this kind of test or on Inland Revenue discretion.

A second suggestion—in this instance for limiting the scope of the charge—concerns the case where the shares are subject to the defined kinds of restriction. The suggestion is that, perhaps on election of the employee, the charge on growth in value of the shares over a period should be replaced by an immediate charge, at the time of acquisition, based on the difference between the unrestricted market value of the shares and their cost to him. This, it is argued, would be more equitable in cases where the restrictions in question have an insignificant effect on the value and where at present all of the subsequent growth in value on the shares (not just that associated wtih the restrictions(is chargeable to income tax under section 79(4).

In exploring this approach a number of issues would need to be considered. For example, not all restrictions are of the kind that would necessarily depress the value of the shares at the time of their acquisition — their effect, rather, might be to allow the shares to grow in value by more than other shares of the same class. The approach adopted would obviously need to be effective in dealing with this kind of situation as well. It might also in practice be difficult to quantify with any precision the extent to which the value of the shares on acquisition had been depressed as a result of the particular restriction in question. Again it would be necessary to devise workable solutions to this problem.

Another area of difficulty some have experienced with section 79 concerns shares acquired by employees in a company that is a subsidiary of another company. In this case, and even if the shares are not subject to any of the defined restrictions, the employees will (by definition) not be able to qualify for exemption under the "control" test mentioned at paragraph 8 above; nor often in practice will they be able to satisfy the alternative "majority" test. Generally speaking, therefore, section 79 is likely to apply to shares in a subsidiary company acquired by its employees under an unapproved scheme — even if there is no abuse.

The position of a subsidiary company's employees in relation to section 79 is obviously, therefore, another area for consideration in this review. One difficulty, of course, is that it is precisely where there is a parent/subsidiary relationship that the potential for abuse — of the kind at which section 79 is aimed — is greatest. The aim, therefore, will be to seek ways of targeting the charge more narowly on cases involving actual abuse, but which do not at the same time impose excessive administrative and compliance burdens on companies concerned.

It has also been sugegsted that the provisions can cause difficulties in relation to some managment buy-outs, or on a reconstruction or merger of companies. It is said that the section can place constraints on the structure which may be used in such reorganisations, if share benefits are to be given to employees which qualify for exemption under either the "majority" or the "control" test. In practice, however, it should normally be possible with reasonable forward planning for companies in this situation to avoid any difficulties that might arise in satisfying one or other of these tests. In the straightforward case where existing management retains control of the company, the "control" test would normally be satisfied as a matter of course. Nor should there be any problem where employees receive unrestricted shares which are identical to shares held widely by non-employees. But it may be that there are other genuine difficulties that can be identified, in which case these too need to be considered carefully in the review.

A further point has been raised both in connection with management buy-outs and the formation of companies generally. It concerns the capacity in which shares are acquired. Section 79 applies to shares acquired by directors and employees in that capacity. The suggestion is that where a new company is being created a distinction might be drawn between, on the one hand, those who are genuinely the promoters or entrepreneurs of the company and on the other hand, the other directors and employees. One obvious point that would need to be considered here is whether it would in practice be possible to make this kind of distinction, without at the same time opening up new opportunities for widespread abuse.

Finally, concern has been expressed by some about the need to tighten up the present exemptions. In particular, it has been pointed out that in order to qualify for exemption, the "majority" or "control" tests need only be satisfied for a moment in time immediately after the shares have been acquired. This is open to obvious abuse and it has been suggested that the rule might be strengthened to require that these conditions should be satisfied for a continuous period of, say, two years following the acquisition. Others may feel, however, that this would be unduly restrictive and perhaps not always practicable anyway. One alternative, therefore, might be an approach targeted in some way more on the particular kinds of arrangement that might be employed where the object was to satisfy the tests only temporarily in order to qualify for exemption. (This assumes of course that it would be possible to identify the kinds of arrangement in question and to distinguish them from other bona fide arrangements).

Comments:

Comments and suggestions are invited on the above points, and more generally on the scope for improving and simplifying section 79 FA 1972 consistent with its underlying purposes. Comments are invited as soon as possible, and not later than May 31, 1987.

Respondents are asked to address their comments in writing to Inland Revenue Policy Division (1/4), Room 48, New Wing, Somerset House, London WC2R 1LB.

Exchange of share option planned for employees in takeovers

AFTER the Chancellor sat down the Inland Revenue issued the following statement:

The Chancellor proposes in his Budget to make it possible for employees in a company which is taken over to exchange their existing share options under an approved scheme for options over shares in the acquiring company.

In addition, and as already announced, certain technical changes are proposed to the "material interest" provisions that apply to employees and directors in close companies. These changes will, among other things, facilitate the smooth running of approved share and share option schemes.

Exchange of options under approved schemes:

When a company with an approved share option scheme is taken over by another company, it may be possible for employees of the target company to exercise their options prematurely, or to continue to hold them to maturity, depending upon the provisions of that particular scheme's rules.

At present, however there is no statutory provision that would enable the employees of the target company to exchange their existing options for ones over shares in the acquiring company. The change proposed will make this possible in future, subject to certain conditions.

This change — which meets representations on the point — will help where the acquiring company wishes to encourage the employees of the target company to continue to work for the success of their company in its new circumstances. Their commitment will be to the new corporate parent as well as to the target company.

The proposed facility will be available on the footing that scheme participants will be no worse off and no better off than if the takeover had not occurred, and they had simply continued with their existing options over shares in the target company.

To qualify, therefore, the replacement options will have to continue to be governed by the rules of the target company's existing scheme (so ensuring, for example, that the employees do not lose any rights attaching to the options which they had hitherto enjoyed). A further condition will be that, at the time of the exchange, the value of the options being given up must be equal to the value of the options being acquired.

Close companies: approved employee share schemes and interest relief:

This concerns some minor technical changes to the rules for deciding whether, where shares are held in a trust, an employee or director has a "material interest" in a close company, and consequently whether he can participate in an approved employee share scheme, and obtain interest relief on loans for purchasing the company's shares.

The main proposals were announced on November 18 1986 by the Financial Secretary to the Treasury, Norman Lamont.

Some further small changes are also proposed. Shares held by the trustees of a Finance Act 1978 approved profit sharing scheme pending appropriation to individual employees will not be reckonable for purposes of the "material interest" test when determining eligibility to participate in any employee share scheme, or for other matters including interest relief. (The legislation has always been operated on that footing, but this proposal will confirm the position.)

In testing for approved share option scheme purposes whether an employee or director has a material interest in a close company, all options over shares in the company held by him will be reckonable as part of the test. This confirms existing published practice, and is for the avoidance of doubt.

One or two other minor changes are consequential upon those already announced.

Full details of all these proposals will be available in the Finance Bill.

Unapproved employee share schemes—review of Section 79, Finance Act 1972:

The Chancellor has announced a review of Section 79, Finance Act 1972—which contains wide - ranging anti-avoidance provisions relating to unapproved employee share schemes. The aim is to explore the scope for simplifying and improving the provisions, consistent with their underlying purpose.

The review will be carried out by the Inland Revenue with the assistance of a small informal group of outside practitioners who have expertise in this area. As a first step, views are being sought from all interested parties, and to this end the Inland Revenue yesterday issued a short consultative document.

PRT reliefs aimed at providing opportunities for offshore supplies industry

AFTER THE Chancellor sat down the Inland Revenue issued the following statement:

The Chancellor proposes in his Budget two further reliefs from petroleum revenue tax (PRT). These are designed to encourage developments in the North Sea to go ahead and so provide further opportunities for the offshore supplies industry. The proposals are:

a to allow up to 10 per cent of any qualifying development expenditure incurred in developing certain future fields to be offset against PRT liability in any field and

b to allow certain expenditure on oil related research which does not at present qualify for PRT relief, to be offset against a participator's PRT liability.

Other measures of a more technical nature are also proposed.

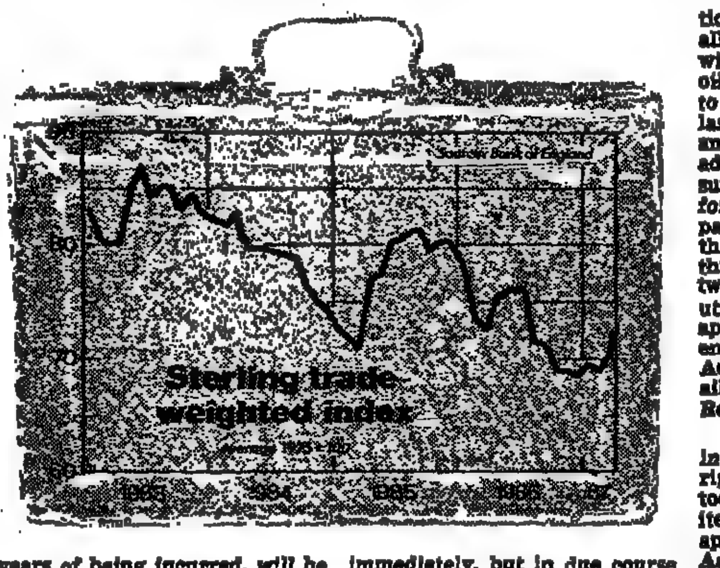
10 per cent Cross Field Allowance (item a).

1. It is a feature of the petroleum revenue tax that participators generally get full relief for expenditure on a new field as soon as its income stream begins. But, apart from certain exploration and appraisal expenditure, the cost of developing an oil field can be claimed against the PRT liability only for that field itself. In the light of the current trough in orders for the offshore industry, the Chancellor now proposes that a participator should be able to elect to set off up to 10 per cent of his qualifying expenditure incurred on or after today in developing a new offshore field outside the Southern Basin immediately against his PRT liabilities in another field. Qualifying expenditure is broadly expenditure agreed as qualifying for supplement in the field for which it was incurred.

This new relief, which will apply to such fields for which development consent is first given on or after today, will improve the post-tax economics of new developments and so encourage companies to proceed with projects which might otherwise be delayed.

PRT Relief for Certain Research Expenditure (item b)

2—Under the present PRT field basis rules, relevant research expenditure is allowable for PRT against the income from the field for which the expenditure was incurred. But some such expenditure, although incurred for the general purposes of oil extraction activities in the United Kingdom or on the United Kingdom Continental Shelf (UKCS), cannot properly be regarded as incurred for the purposes of a particular field and so does not qualify fo relief. Under the proposed measure, expenditure on UK/UKCS oil related research incurred on or after today, which has not become allowable in a particular field within three



years of being incurred, will be allowed against a participator's liability in any field. This will bring the scope of PRT relief for research expenditure more closely into line with that for corporation tax. It will encourage general research, inter alia, into ways of reducing the cost of developments, and so make it more likely that new projects will be undertaken.

3—Both these measures will enable companies to plan and set in hand now new activity in the expectation of tax relief. Because of the lead times involved the full cost to the Exchequer will not be incurred immediately, but in due course the measures are expected to benefit the industry by over £100m a year.

Oil Allowance

4—The oil allowance rules exempt from PRT the first quarter million tonnes of oil produced each half-yearly period, up to a cumulative total of 5m tonnes per field. These amounts are doubled for post March 31 1982 offshore field developments outside the Southern Basin. In each period, the allowance is shared between the participators in the ratio of their shares of oil, but it is possible, over time, for the participators' cumulative shares of allowances to get out of step with their cumulative shares of oil. There is already some scope to rectify this imbalance in the last period for which any allowance is due, but the margin for adjustment may not always be sufficient. The Chancellor therefore proposes to allow participators further scope to balance their shares of oil allowance through reallocation in the last two periods of oil allowance utilisation. The new rule will apply for chargeable periods ending on or after June 30 1987.

Adjustment of incorrectly allowed PRT Expenditure Reliefs

5—A defect will be remedied in the rules for putting matters right where either too little or too much expenditure on such items as exploration and appraisal has been allowed.

Advance Corporation Tax

6—A company's oil extraction activities in the UK and on the UKCS are separated by a "ring fence" for corporation tax (CT) purposes from its other activities. The relevant law includes rules which govern the way in which advance corporation tax (ACT) can be set against CT on ring fence income. The Chancellor proposes to amend these rules in a number of ways to make them more appropriate to current circumstances.

7—There are restrictions in Section 16, Oil Taxation Act 1975, on the extent to which a subsidiary company can offset ACT against the CT on its income from oil extraction activities or from oil rights. Subject to conditions, including a monetary limit, the proposed new measure will allow ACT which has been surrendered to the company in respect of any dividend paid on or after today, and which cannot be set against its CT on profits of that accounting period, to be carried back and set against its CT ring fence liability in the previous six years.

8—There will also be provision to enable a member of a 50/50 consortium to surrender ACT to a company with ring fence trading activities which is owned by the consortium.

9—The ring fence is intended to ensure that losses and expenditure incurred outside are not offset against profits within the ring fence. The rules apply for example to interest on loans used to finance non-ring fence activities. But the ring fence could be breached by companies raising capital for non-ring fence purposes through preference shares, rather than through loans, setting off, eg losses against the resulting income and setting the ACT on the preference dividends against CT on their ring fence income. This could result in revenues from UK or UKCS oil extraction being eroded by the offset of ACT in respect of dividends paid on such financing costs which have nothing to do with activities within the ring fence. The Chancellor proposes a measure along the lines of the rule which already exists for loan capital. ACT on dividends paid on or after today in respect of preference share capital issued by a company under the control of another UK resident company will not be available for offset against ring fence CT unless the capital can be shown to have been applied by the company in carrying on its ring fence activities. This measure will not inhibit any financing arrangement which is for the company's UK or UKCS oil extraction activities.

10—The opportunity will be taken to make it clear that the carrying back of ACT cannot give rise to repayments of ACT under certain repealed provisions.

11—Lastly, in the light of the changes proposed on the corporation tax treatment of capital gains, the provisions in Section 16 of the Oil Taxation Act 1975, which restrict the set off of ACT against CT liability in respect of ring fence activities, will be amended to cover capital gains on farmouts within Section 79 Finance Act 1984.

Valuation and pricing

12—The Finance Bill will also contain provisions for implementing the strengthening and updating of the Petroleum Revenue Tax rules for valuing and pricing oil already announced.

Inspectors' discretion to apportion income of close companies removed

AFTER the Chancellor's speech the Inland Revenue issued the following statement:

The Chancellor proposes in his Budget to remove the Inspector's discretion to apportion income of a close company to its shareholders. Until recently the Inland Revenue had believed that the existing legislation obliged the Inspector to make apportionments except where the amount of tax involved was small. However, the Court of Appeal said in a case last year that the Inspector had a wide discretion whether or not to make an apportionment. The proposed change means that the Inspector will be required to apportion except where the amounts involved are small.

Covenanted payments to charity (and other annual payments):

An Inspector may also apportion covenanted payments to a charity (and other annual payments) made by a close company. The Court of Appeal held that the Inspector had a discretion whether or not to make such an apportionment. Here too the Chancellor proposes that the Inspector will be obliged to make an apportionment except where the amount of tax involved is small. However, from 1986-87 onwards (following changes made in last year's Finance Act), the apportionment rules do not in practice affect payments under covenants by close companies to charities except where the charity itself fails to meet the conditions for tax exemption on the income.

Certain associated discretionary powers in the apportionment legislation will be similarly dealt with.

The change will apply to accounting periods beginning on or after Budget Day. For earlier periods Inspectors will exercise their discretion with the assistance of guidelines which have been published today as an Inland Revenue Statement of Practice. (SP 2/87, a copy of which is attached).

On the issue of close company apportionment, the Inland Revenue gave the following guidelines to Inspectors on the exercise of their discretion within paragraphs 1 and 3 schedule 16 of the Finance Act 1972.

It was established in R v Sampson (HM Inspector of Taxes) and another. Ex Parte Lansing Bagnall Ltd that the use of "may" in paragraphs 1 and 3 schedule 16 of the Finance Act 1972 conferred on the Inspector of Taxes a discretion as to whether to apportion the income or annual payments of a close company.

Inspectors may welcome guidance on how these discretions may be reasonably and properly exercised. These notes are intended to provide assistance and to endeavour to ensure, so far as it is possible, that there is consistency of treatment. They are, however, only guidelines. The discretions in paragraphs 2 and 3 are conferred on the Inspector personally and he cannot be directed how to exercise them.

It will provide a context for the exercise of these discretions if the purpose of paragraph 1 and paragraph 3 is considered. The purpose of paragraph 1 was described by Lord Roskill in the House of Lords in Wilson and Garden v CIR 56 TC 279 at page 291 as: "to prevent the accumulation by close companies of undistributed profits which are in truth income and thereby the conversion of what is in truth income into tax free capital."

The purpose of paragraph 3 is considered to be aptly described in the judgment of Stamp LJ in C. & J. Clark Ltd v CIR 50 TC 103 at page 114 where he said: "you could not so organise your affairs through the medium of a company so as to escape the ambit of surtax on payments under a covenant made by the company to charity which would not be allowable as deductions in computing your income for the purposes of surtax if you yourself had made the payments under covenant."

Parker LJ expressed himself similarly in relation to the paragraph in Lansing Bagnall. The tenor of what he said is stated in paragraph 19 below.

In the case of both paragraphs 1 and 3, it is considered that the exercise of the relevant discretion is subject to the duty of fairness to and between taxpayers discussed in IRC v National Federation of Self-Employed and Small Business Ltd [1982] AC 617. It was accepted by Parker LJ in Lansing Bagnall that this duty applied in relation to the discretion conferred by paragraph 3 and it is thought that it must equally apply in relation to that conferred by paragraph 1.

The Inspector may think that he should not exercise the powers conferred in paragraphs 1 and 3 where it appears that the amounts involved are not worth pursuit.

The discretions conferred by paragraphs 1 and 3 are wider than the discretion derived from the Board's care and management powers under Section 1 of the Taxes Management Act 1970 which is solely concerned with good management. Nevertheless it may be considered appropriate to take into account good management in the exercise of the discretions under paragraphs 1 and 3. It would not be good management to pursue trivial amounts or even substantial amounts if the costs of collection were going to be disproportionately high and collection itself uncertain.

As indicated above, the more general discretions in paragraph 1 and 3 would allow the Inspector to take a broader view of what amounts were worthwhile than the dictates of good management. There might be circumstances in which the Inspector might decide, particularly bearing in mind the elaborate procedures of apportionment, that the amounts involved were not large enough to justify proceeding further.

Another matter which might be taken into account by an Inspector in the exercise of his powers in paragraphs 1 and 3 is the fact that apportionment was not considered in past years because of Revenue oversight. Here again the Inspector may wish to have regard also to the duty of fairness to other taxpayers, for example, participators in companies which had their income apportioned each year. The amounts involved may also be a material consideration.

The Inspector might also decide not to apportion where there were special factors in the particular case. An example of this might be where very late in its accounting period an open company became close. Another, perhaps, is where it had been thought the company was open and it was found to be close only because of the very wide rules of association in Section 303(3) of the Taxes Act.

In Lansing Bagnall it was held that an Inspector is bound to consider any representations made on behalf of the company as to why the Inspector should not apportion in its case. It would be for the Inspector to decide what weight, if any, should be given to such representations. It is not felt that the Inspector is bound to invite representations but they may well be made when either clearance is being sought or the accounts are submitted.

In the event of uncertainty as to the proper exercise of discretion in paragraph 1 the Inspector may seek the advice of his head office.

There are other paragraphs in Schedule 16 which confer on the Inspector discretionary powers, for example paragraph 1(4), paragraph 2 and paragraph 4. The discretion conferred by these paragraphs will be exercised at the Close Companies Apportionment Unit.

Supplementary guidances on the apportionment of annual payments.

The Board has decided that all cases arising under paragraph 3 Schedule 16 Finance Act 1972 will be dealt with by the Close Companies Apportionment Unit.

There are certain factors and circumstances which have no relevance for paragraph 1 to which the Court of Appeal in Lansing Bagnall considered an Inspector might hav eregard when determining whether to make an apportionment in respect of annual payments within paragraph 3.

One such circumstance is where the company covenants to particular charities because its business and reputation would suffer if it did not do so. In such a case the participators themselves might wholly disapprove of the particular charity and never dream of contributing to it themselves. The Inspector might feel that in these or broadly similar circumstances there is a strong case for not making an apportionment, assuming that he has not already concluded that such payments would have been made wholly and exclusively for the purposes of the company's trade and so excluded from apportionment by paragraph 3 (2).

Another circumstance is where an open company which for good business reasons has been making covenanted payments becomes close. This was considered by Parker LJ to be a particularly relevant matter.

Another is that no apportionment was considered in respect of covenanted payments in earlier years. This is essentially the same point as Revenue oversight referred to in the separate guidelines for paragraphs 1 and 3 but with covenanted payments Revenue oversight might itself have influenced the amounts covenanted in later years.

Finally, it was submitted to the Court that it would be relevant to compare the nature and amount of the covenanted payments made by the close company with those made by open companies of similar size. There are practical difficulties in making such comparisons. The comparison should presumably be made with a reasonable number of comparable open companies. Conceivably the type of business carried on and the circumstances in which covenanted payments were made would also be relevant considerations.

Whilst it is right that the Inspector should have regard to these factors to which the Court has drawn attention, the actual weight, if any, he attaches to them is wholly a matter for the Inspector. The guiding principles should still be to be fair as between taxpayers and to the individual taxpayers concerned on the basis that the object of the legislation is not to penalise the participators in close companies but to see that they do not, by reason of their position as such, obtain an unfair advantage over others.

THE BUDGET: Details

Rules standardised on corporation tax payment dates

AFTER THE Chancellor sat down, the Inland Revenue issued the following statement:

The Chancellor proposes to standardise the rules relating to the date on which corporation tax is payable by companies, other bodies liable to corporation tax and building societies. The intention is that, after a transitional period, in all cases corporation tax will be payable nine months after the end of the accounting period for which it is chargeable.

The standardisation of payment intervals in this way will put all companies and building societies on an equal footing. It will, therefore, simplify and rationalise the present payment arrangements and thus is in keeping with the broad objectives of the 1984 company tax reforms.

It will also prevent an abuse by which a company has been able to delay payment of tax on its profits. It has been able to do this by taking over a company which has a longer payment interval and transferring its activities to it. The longer payment interval then applies to the tax on all the profits of the company taken over, including those arising from the activities transferred to it, so giving the company an enduring timing advantage. Standardisation of payment intervals at nine months will prevent the abuse with its potentially very significant cost to the Exchequer.

Companies (and other bodies):

At present the date on which corporation tax is payable by companies varies from nine to 21 months after the end of the accounting period for which it is chargeable. The Chancellor proposes to standardise the payment interval at nine months for all companies. The change to the new payment date will be phased in over a period of three years during which the payment interval will be reduced to nine months in three equal steps. These transitional arrangements will begin with a company's first accounting period starting on or after Budget day.

The rules will be modified where a company has an accounting period of less than 12 months.

Building societies:

For building societies with payment intervals of more than nine months, the arrangements will be the same as for companies.

Some building societies have payment intervals of less than nine months. For these the transitional arrangements will be different. The transition will normally be spread over a period of up to two years, starting with accounting periods ending in the 1989-90 tax year. For these accounting periods a society's payment interval (under Section 344(2) (a) of the Income and Corporation Taxes Act 1970) will be extended to two months (where it would otherwise be shorter); and for accounting periods ending in the following tax year the interval will be extended to nine months. These special arrangements are designed to ensure there is no cost to the Exchequer in any year during the transitional period from the standardisation of payment intervals.

In some cases, the existing rules for building societies require a society to pay corporation tax before the end of its accounting period. Typically, where a society has a payment interval of less than nine months its corporation tax is due on January 1 in the tax year in which its accounting period ends. However, its accounting period might not end until later in the tax year (for example, January 31). To take account of this there is a special provision (Section 344(2) (b) of the Income and Corporation Taxes Act 1970) which provides for a provisional payment of corporation tax, typically on January 1, with the final liability being calculated later. Once societies have moved to a nine month payment interval, these provisions will cease to apply. But for accounting periods ending in the tax year 1989-90, the due date for the provisional payment will be two months after the end of the accounting period, if it would otherwise be earlier.

Inheritance tax starting point to rise by £19,000

AFTER THE Chancellor sat down the Inland Revenue issued the following statement: Inheritance tax: The Chancellor proposes in his Budget

- to raise the starting point for inheritance tax (IHT) from £71,000 to £90,000
- to simplify the rate structure by replacing the present 7 rates of tax with 4
- to extend exemption for lifetime gifts to certain gifts involving interest in possession trusts
- to increase business relief for substantial minority shareholdings in unquoted companies
- to treat USM holdings as fully quoted for all IHT purposes
- to improve the tax arrangements for the protection of heritage property.

Threshold and rates of tax:

The Chancellor proposes to increase the starting point for inheritance tax from £71,000 to £90,000, and to replace the present 7 rates of tax with 4.

The proposed scale and the existing scale are shown in the table.

The revised scale is to apply to transfers on or after March 17 1987. These changes are more generous than the increases that would have resulted from the requirement for statutory indexation. Under that provision, the starting point and thresholds would have been increased by 3.7 per cent—the increase in the RPI for the year to December 1986—to make the starting point for paying IHT £74,000.

Interest in possession trusts:

The Chancellor proposes to abolish the existing IHT charge on transfers made more than seven years before death involving interest in possession trusts. Transfers to discretionary trusts and transfers involving companies remain liable to an immediate charge at half the full rates. The proposal applies to transfers made on or after March 17 1987.

Transfers into trust:

No immediate lifetime charge on a gift made by an individual if the gift is into a trust under which another individual has a beneficial interest in possession in the gifted property; or

if the gift increases the value of trust property in which another individual has a beneficial interest in possession.

Transfer out of trust:

No immediate lifetime charge on a disposal or termination of an individual's beneficial interest in possession in trust property if on that event another individual becomes beneficially entitled to the property in which the interest subsisted, or to an interest in possession in that property; or that property becomes subject to an accumulation and maintenance trust, or trust for the disabled; or

the value of another individual's estate is increased.

Transfers within seven years of death:

Transfers made within seven years of death will generally remain taxable at a tapered rate; they will be potentially exempt transfers (PETs).

Anti-avoidance provisions:

The legislation will include measures to prevent the minimisation of the charge on transfers to discretionary trusts through the use of short-term interests in possession.

Change in Business Relief:

The Chancellor proposes to increase from 30 per cent to 50 per cent the rate of IHT business relief on substantial minority shareholdings in unquoted companies. This new category of 50 per cent relief will apply to shareholdings of more than 25 per cent but not more than 50 per cent, provided that the transferor has maintained a shareholding of over 25 per cent throughout the two years preceding the transfer on which relief is due.

The new rate of relief is to be available for transfers made on or after March 17, 1987. From the same date, shares in companies dealt in on the Unlisted Securities Market (USM) will, to reflect the development of the USM, be treated for business relief and all other IHT purposes in the same way as shares in companies with a full listing on the Stock Exchange. This means that business relief will be available for shares in USM companies or those with a full listing only for transfers out of shareholdings which gave the transferor control of the company immediately before the transfer. So the increased rate of relief applies only to companies without a full listing or that are not dealt in on the USM.

The National Heritage:

The Chancellor proposes two measures to help to protect the national heritage.

Heritage Maintenance Funds

Settled property will be exempt from inheritance tax on the death of a person who has an interest in possession in the property—for example, a life tenant—if the terms on which the property is held are altered after his death so that it goes into a heritage maintenance fund within two years. A further year will be allowed if the alteration needs a Court Order. The exemption will apply to deaths on or after March 17, 1987.

The rules for the charges when property leaves a maintenance fund for non-heritage purposes will be based on the cumulated chargeable giving of the former life tenant. This alteration will also apply to former "interest in possession" property that entered the fund on the termination of that interest with the benefit of the existing maintenance fund exemption. The alternation will apply to charges arising on or after March 17 1987.

Acceptance in Lieu:

People who offer heritage property in lieu of inheritance tax on other property will be given the option of having the offset against tax calculated by reference to the value of the property at the date of the offer instead of its value at the date of acceptance. When this option is chosen, interest on the tax will cease to accrue from the date of the offer.

Details of the changes:

The Finance Bill to be published next month will give further details of these changes.

RANGE (£000s) TO WHICH TAX RATE APPLIES

Rate of Tax	Existing scale	Proposed scale
Nil	0—71	0—90
30	71—95	90—140
35	95—129	—
40	129—164	140—220
45	164—206	—
50	206—257	220—330
55	257—317	—
60	Above 317	Above 330

'Pay and file' scheme aims at streamlining administration

AFTER THE Chancellor sat down the Inland Devenue issued the following statement:

The Chancellor proposes in his Budget to introduce the legislative basis of a new scheme (referred to as "Pay and File") which when implemented will streamline the administration of corporation tax.

This proposal was identified for early consideration in the Consultative Document "The Inland Revenue and the Taxpayer," which was published on December 12 1986 in response to the recommendations of the Keith Committee.

The introduction of Pay and File is part of a wider programme of modernising and streamlining tax collection, which includes major developments in the Inland Revenue's computer systems.

At present, many company accounts are not received in time to agree tax liability before payment is due. So there is a laborious, costly and time-wasting process, criticised by the Keith Committee, of an estimated assessment by the Inland Revenue, an appeal by the company, agreement on the amount of tax to be provisionally paid, and finally the submission of the accounts and settlement of the actual liability. In 1986, the Revenue made some 650,000 corporation tax assessments, of which some 420,000 or 65 per cent had to be estimated and against some 400,000 of which appeals were lodged.

The committee's proposed solution—reducing the period for delivering accounts to six or seven months—was regarded as impracticable by representative bodies commenting on the committee's recommendations. Pay and File offers an alternative and practical solution.

DETAILS OF THE PROPOSAL:

The Chancellor's proposals consist of:

The "Pay" element:

—A company will be required to pay corporation tax on a fixed date (9 months after the end of its accounting period), whether or not an assessment has by then been made.

—Interest will run from the same fixed payment daet on any tax paid late by the company or tax repaid by the Revenue to the company.

The "File" element:

—A company will be allowed 12 months, from the end of the period to which it makes up its tax accounts, in which to supply its return and thos accounts.

—If it fails to send in the return and accounts within that time it will—unless it can show a reasonable excuse—incur an automatic flat rate penalty.

—If the return and accounts have not been supplied by 18 months after the end of the period in respect of which the return is due ("the return period"), the company will incur an additional penalty of 10 per cent of the tax due but unpaid at that time: this will increase to 20 per cent if the return is still outstanding two years after the end of the return period.

—These penalties will be chageable by assessment, with the taxpayer having a right of appeal against the assessment.

These changes will take effect when the new Inland Revenue computer systems now being developed are operational. In the course of consultations, recommendatives of business and professional advisors emphasised the need on their side also for ample time to prepare for the new arrangements. The new payment, interest and penalty arrangements will accordingly not come in before January 1992.

Changes to the Pay and File proposals following consultation:

As a result of representations and consultations, these proposals differ from those set out in the recent consultative document in a number of ways:

—The late filing penalty for corporation tax returns and accounts, which has been criticised as too complicated, has been re-vamped. The new proposal is that:

The daily penalty in the published draft clause will be replaced by a simpler lump sum penalty of £100 if the return is made no more than 3 months late, increasing to £200 for a longer delay. a higher penalty would be changed for repeated failures. The tax related penalty will come in 18 months after the end of the return period. It will initially be at a lower rate of 10 per cent of the tax then unpaid, but rise to 20 per cent if the return and accounts are still outstanding two years after the end of the return period.

—The penalty assessing clauses as published in the consultative document, which were originally drafted for a wide range of penalties, are being modified to apply for the present only to the corporation tax return late filing penalty.

The due date for payment of tax chargeable under Section 286 ICTA 1970 (close companies: loans to participators etc) will be 14 days after the end of the accounting period, rather than on the first day after the financial year in which the loan was made. Interest on repayment under Section 286(5) will run from the date the loan is repaid.

Special provision will be made for certain special cases where the normal Pay and File rules on interest for late payment would produce an inequitable result.

Simplifying and reducing the burden on small businesses

THE TREASURY issued the following statement after the Chancellor sat down: A number of measures in the Budget of particular importance to small businesses. The main changes are:

- The proposed reduction to 27 per cent of the rate of corporation tax for small companies for the financial year 1987 (compared with a rate of 42 per cent in 1979).
- The proposed reduction in the basic rate of income tax for 1987-88 to 27 per cent, which will benefit the self employed and partnerships.
- Optional cash accounting for VAT for businesses up to £250,000 turnover, which accounts for more than half of those registered for VAT. One of the key concerns of these businesses is the late payment of bills. This scheme will mean that they will not have to account for VAT until their bills have been paid. It will also give them effective bad debt relief.
- Optional annual accounting for VAT, for businesses up to £250,000 turnover. Under this scheme, businesses will have to complete only one VAT return per year, with nine advance payments on account.
- Extension of the time to notify liability to register for VAT from 10 to 30 days.
- Making the simpler retail schemes more widely available.

Other measures which will benefit small businesses include:

- Capital gains made by companies will be charged at the appropriate corporation tax rate, 27 per cent for small companies instead of 30 per cent. Companies will be able to offset ACT against tax liability on gains.
- The ceiling for retirement relief for capital gains tax will be increased from £100,000 to £125,000.
- New, simplified occupational pension schemes will help small employers to set up their own schemes.
- Changes to the Business Expansion Scheme will make it easier to raise equity finance throughout the year.
- The rate of business relief for inheritance tax will be increased from 30 per cent to 50 per cent for minority holdings over 25 per cent in unquoted companies (but minority holdings in companies quoted on the Unlisted Securities Market will be treated for all inheritance tax purposes like shares in companies with a full listing).
- The VAT registration threshold will be increased to £21,300, keeping it at the maximum level allowed under current European Community law.

The VAT small business measures follow a consultation paper published in October 1986. They represent an improvement for businesses on the proposals in the consultation paper in several important respects:

- The turnover limit for cash and annual accounting has been increased from the proposed £100,000 to £250,000.
- The proposal for compulsory deregistration of small businesses with a turnover below the registration threshold has been dropped.
- The proposal to withdraw the standard method of calculating gross takings by retailers has also been dropped.

These tax changes build on a large number of measures which have already helped small businesses since 1979, including cuts in the rates of corporation tax and income tax and the introduction of the Business Expansion Scheme. They represent a further significant step towards reducing both the burden of taxation and administrative burdens. They should give further encouragement to small businesses, to help them increase their profitability and expand.

Civil List

Royalty's allowance to rise 4.5%

THE CIVIL LIST, the annual government payment to cover the Royal Family's official expenses, is to rise by 4.5 per cent, in line with inflation.

For the new financial year, the total goes up to £5,661,200 from £5,400,600. However, because the Queen contributes from her private funds to cover the expenses of the Dukes of Gloucester and Kent and Princess Alexandra, the final total payable by the Treasury for the coming year will be £5,289,500, compared with £5,045,000.

More than 75 per cent of the Civil List allowance goes on salaries, to people ranging from the Queen's private secretary to palace cleaners. Apart from salaries, the main items are office stationery and supplies, running the royal kitchens, maintaining furnishings, cars and carriages, and staging Buckingham Palace garden parties.

The number of engagements undertaken by members of the Royal Family continues to increase, and the newest member, the Duchess of York, who does not figure separately in the list, is undertaking a full programme of engagements.

The Duchess's expenses are paid from the Duke of York's allowance, raised to £50,000 a year from his marriage in July last year.

Staff costs assume a 4.5 per cent pay increase from April 1, in line with government cash limits.

The full list (1986 figures in brackets). The Queen £4,326,100 (£4,136,800); The Queen Mother £375,300 (£359,100); The Duke of Edinburgh £209,300 (£200,300); Princess Anne £130,400 (£124,800); The Duke of York £50,000 (£33,300); Prince Edward £20,000 (£20,000); Princess Margaret £127,000 (121,500); Princess Alice, Duchess of Gloucester £51,400 (£49,200); The Duke of Gloucester £102,200 (£97,800); The Duke of Kent £138,000 (£132,000); Princess Alexandra £131,500 (£125,800);

Company car scale charges raised 10%

THE INLAND REVENUE issued the following statement after the Chancellor's speech: Income tax and VAT: benefits in kind. Car and car fuel benefit scale charges 1988-89

The Chancellor proposed in his Budget that the scale charges or taxing company cars provided for directors or "higher-paid" employees will be increased for 1988-89 by 10 per cent.

No increase is proposed in the scales relating to fuel provided for private motoring in such cars, which, as announced last year, will also be used from April 1987 for VAT purposes.

Details of the car and car fuel benefit scales proposed for 1988-89 (1987-88 figures in brackets where these are different) are given in the accompanying tables. These also give examples of the amount of tax payable by a basic-rate taxpayer. (The basic rate used is that announced for 1987-88 in the Budget—27 per cent. The actual rate for 1988-89 may be different).

The proposed changes will affect the liability to tax of directors and those employees earning at a rate of £8,500 a year or more (including the value of any benefits etc), who by reason of their employment are provided with cars which are available for private use.

The taxable cash equivalents of company cars and fuel used for private motoring are contained in Finance Act 1976 and may be varied by Treasury order. It is proposed that orders increasing the car benefit scales will be laid before Parliament in the summer.

CARS WITH ORIGINAL MARKET VALUE UP TO £19,250 AND HAVING A CYLINDER CAPACITY

	Scale Charges		Tax payable for 1988-89, (assuming basic-rate taxpayer and basic rate of 27p)	
Cylinder capacity car in cu centimetres	Age of car at end of relevant year of assessment		Age of car at end of relevant year of assessment	
	Under 4 years	4 years or more	Under 4 years	4 years or more
1400cc or less	580 (525)	380 (350)	£156.60	£102.60
1401cc-2000c	770 (700)	520 (470)	£207.90	£140.40
More than 2000cc	1210 (1100)	800 (725)	£326.70	216

CARS WITH ORIGINAL MARKET VALUE MORE THAN £19,250

	Scale Charges		Tax payable for 1988-89 (assuming basic-rate taxpayer and basic rate of 27p)	
Original market value of car	Age of car at end of relevant year of assessment		Age of car at end of relevant year of assessment	
	Under 4 years	4 years or more	Under 4 years	4 years or more
£19,250 or more but not more than £29,000	1595 (1450)	1070 (960)	£430.65	£288.90
More than £29,000	2530 (2300)	1685 (1530)	£683.10	£454.95

CARS WITH A RECOGNISED CYLINDER CAPACITY

Cylinder capacity of car in cubic centimetres	Cash equivalent	Tax payable for 1988-89 (assuming basic rate taxpayer and basic rate of 27p)
Up to 1400 cc	480	£129.60
1401 cc-2000 cc	600	£162
More than 2000 cc	900	£243

CARS WITH ORIGINAL MARKET VALUE UP TO £19,250 AND NOT HAVING A CYLINDER CAPACITY

	Scale Charges		Tax payable for 1988-89 (assuming basic-rate taxpayer and basic rate of 27p)	
Original market value of car	Age of car at end of relevant year of assessment		Age of car at end of relevant year of assessment	
	Under 4 years	4 years or more	Under 4 years	4 years or more
Less than £6,000	580 (525)	380 (350)	£156.60	£102.60
£6,000 or more but less than £8,500	770 (700)	520 (470)	£207.90	£140.40
£8,500 or more but less than £19,250	1210 (1100)	800 (725)	£326.70	£216

Unit trust rules to fit in with act

AFTER THE Chancellor sat down the Inland Revenue issued the following statement:

In his Budget, the Chancellor proposes to modify the tax rules which apply to authorised and unauthorised unit trusts. The main purpose of the changes is to adjust the tax rules to fit the new regime for unit trusts introduced by the Financial Services Act 1986. The substance of the present tax treatment will not be altered.

Details of the proposals:

The main modifications proposed are:

a Tax definitions of authorised and other unit trusts will be altered to match the new Financial Services Act definitions.

b Authorised unit trusts—technical changes will be made to ensure that the income tax rules cater for trusts which take advantage of the freedom to invest in a wider range of securities (such as commodities, financial futures and options) which may be permitted under the FSA regime.

c Other unit trusts—i.e. unit trusts which are not authorised, and "gilts" unit trusts (authorised unit trusts, investing only in fixed interest securities, which get the same income tax treatment as non-authorised unit trusts). To cater for developments which may occur in this sector under the new FSA regime:

i a statutory income tax framework will be introduced—this will have substantially the same effect as the existing treatment, which is based on general income tax law and trust law (statutory rules are already in place for CGT and other taxes);

ii there will be enabling powers allowing the Treasury, by Regulation, to exclude trusts from the tax rules applying to unit trusts. This is to cater for the possibility that in future there will be some categories of trust for which this tax treatment is inappropriate, though they will fall within the FSA regime for unit trusts;

iii in addition, the application of the Accrued Income Scheme will be modified and clarified. In particular, the 45 per cent additional rate charge will be removed for unit trusts which take realised accrued interest into account when calculating the income available to unit holders.

Foreign partnership

AFTER THE Chancellor sat down the Inland Revenue issued the following statement:

The Chancellor is proposing legislation to ensure that a UK resident partner in a foreign partnership is fully chargeable to tax in the UK on his share of the profits of the partnership.

The legislation is intended to do no more than restore the general understanding of the law as it was before the decision in Padmore v CIR. It will apply so as to prevent claims to relief from tax for past years.

The legislation will not affect the decision of any court given before today.

Controlled foreign companies: The Chancellor proposes in his Budget to amend the legislation concerning Controlled Foreign Companies to prevent avoidance of UK tax by moving the residence of the overseas company to the UK before payment of a dividend.

The proposed amendments to the legislation will apply to dividends which are paid on or after today.

Higher indexed threshold for capital gains tax

AFTER MR LAWSON had finished speaking, the Inland Revenue issued the following statement on exempt threshold retirement relief for Capital Gains tax.

In his Budget, the Chancellor proposes a number of changes to capital gains tax. Two of the changes are :—

i. An increase in the threshold in line with the Retail Prices Index. For 1987-88 an individual will be exempt on the first £6,600, and most trusts on the first £3,300 of gains (the present figures are £6,300 and £3,150 respectively).

ii. An increase from £100,000 to £125,000 in the maximum amount of the relief available for those who dispose of their business on retirement at 60 or earlier on ill-health grounds.

This release gives further information about these proposed changes. The detailed provisions for retirement relief will be included in the Finance Bill.

Other proposals affecting capital gains are dealt with in the appropriate Press release, in particular, those concerned with corporation tax on the gains of companies and over-the counter futures and options.

Over-the-counter options and futures:

The Chancellor proposes:

(i) To extend the capital gains tax treatment in section 72 Finance Act 1985 to certain over-the-counter financial futures and options. The main effect will be that profits on transactions in these futures and options will always be taxed as capital gains rather than income unless the transaction takes place in the course of a trade. At present, they may in some circumstances be taxed as income.

(ii) To bring the capital gains tax treatment of over-the-counter financial options in line with that for traded options.

This release gives further information about these proposed changes. The detailed provisions will be included in the Finance Bill.

● **Stock Exchanges**

Consequent to the Financial Services Act 1986, the Chancellor proposes to introduce an enabling power allowing securities traded on new stock exchanges established in the United Kingdom to be treated in the same way for tax purposes as securities traded on the existing Stock Exchange.

THE BUDGET: Details

Custom and Excise statement on value added tax

Turnover level to be raised on cash accounting scheme

CUSTOMS and Excise issued the following details of the VAT package announced to assist small businesses:

Cash accounting

The Chancellor announced an optional scheme, open to all businesses with turnovers below £250,000, whereby VAT would be accounted for on the basis of cash paid and received.

This scheme improves considerably on that proposed in the consultation paper VAT: Small Business Review, issued last October, in which the suggested turnover level was £100,000. Provided the necessary derogation under article 27 of the EEC 6th VAT Directive can be obtained, it will be introduced on October 1 1987.

The Finance Bill will contain an enabling clause and draft regulations will be published in May to coincide with the standing committee's consideration of the bill.

Businesses wanting to use the scheme will be required to make an application to their local VAT office and, once approved, to remain in the scheme for two years. A leaflet explaining how the scheme will work will be available from local VAT offices in May. Further information explaining how to apply will be sent out with VAT returns in the summer.

Annual accounting:

The Chancellor announced an optional scheme of annual accounting. This scheme would be available to all businesses which regularly pay tax, have been registered for at least one year and have turnovers below £250,000. Businesses choosing to use the scheme would make only one VAT return a year instead of the present four. They would make nine equal payments on account, by direct debit, and a tenth balancing payment with their annual return.

This scheme, too, improves considerably on that proposed in the consultation paper in which the suggested turnover limit was £100,000. It will be introduced in the summer of 1988 when the necessary computer reprogramming has been completed.

The Finance Bill will contain the necessary enabling clause, and draft regulations will be published in spring 1988.

A leaflet explaining how the scheme will work will be available from local VAT offices in June. Invitations to use annual accounting will be included in this autumn's VAT notes.

Records and accounts:

As announced in HM Customs and Excise news release number 4.87 VAT: Preservation of Records, KMG Thomson McLintock have been appointed to conduct a review of the maintenance and preservation of VAT records and are due to report by the end of May.

The proposal to engage an independent consultant to conduct such a review was announced in Chapter 3 of the consultation paper.

Registration and deregistration requirements:

Mr Lawson announced that the time for notification to be registered for VAT was to be extended to 30 days; this is one of several changes which are:

- *Time to notify liability to register extended to 30 days;*
- Eligibility to deregister to be based on future turnover only;
- Turnover for deregistration to be tax inclusive;
- Notification of cessation of trade increased to 30 days;
- *Once deregistered, businesses* will not have to re-register on the basis of turnover prior to deregistration.

These changes will have effect from Royal Assent to the 1987 Finance Act.

The only modification made to the *original proposals* was, for technical reasons, the substitution of "30 days" for "1 month." *In practice this will* not be detrimental, as a fixed period of 30 days gives certainty, whereas a calendar month varies from 28 days to 31 days.

Discretionary registration:

The discretionary registration of businesses with turnovers below the registration threshold will continue unchanged. (It had been suggested in the consultation paper that businesses below the registration threshold *should not* be permitted to register, or remain registered for VAT.)

Retail schemes:

The Chancellor announced changes to the special schemes *for retailers. These are:*

A new scheme, to be called Scheme B1, will be introduced as an alternative to Scheme B. This new scheme will not have a "50 per cent rule," and no turnover restrictions will apply, but it will involve an annual stock adjustment.

Scheme B itself will remain unchanged.

Another adaptation to Scheme B, to be called Scheme B2, will be *introduced to replace* the existing "Adaptation 1."

This new scheme will no longer have a fixed mark-up of 14 per cent applying to all zero-rated goods received for resale; instead various increased but fixed mark-ups will be applied based on types of zero-rated goods. An annual turnover restriction *of £500,000 per annum* will apply, in line with the proposal in the consultation paper.

The annual turnover limit for Scheme C will be increased to £90,000, while some of the fixed mark-ups applied to the different trade classifications will be revised.

As a result of representations made, some of the revised fixed mark-ups proposed in the consultation paper will be reduced.

The annual turnover limit for Scheme D will be increased to £500,000. This is in line with the proposal in the consultation paper.

The current "Adaption 2" will be replaced by an adaptation to Scheme E, *to be called* Scheme E1.

As proposed in the consultation paper, this new scheme will operate in the same way as the *old adaptation* except that only the calculation of expected selling prices of standard-rated goods received for resale will be required.

The lower annual turnover limit *for* Scheme G will be abolished, while the ⅛ uplift, having been reviewed, will *remain unchanged.*

The How to work Scheme J pamphlet will be amended to *include the available scheme J* adaptations.

This is in line with the proposal *in the consultation paper.* The "standard" method of reckoning gross takings will *remain unchanged* for the present.

After considering the representations about this proposal, Ministers have decided that it *should not* be proceeded with for the present. The use of the *standard method* will, however, form part of a future review on the use of retail schemes by *large businesses.*

Use of retail schemes will be withdrawn from non-retailers.

Persons affected should consider whether they can use the *scheme of cash accounting to be* introduced on October 1.

Use of retail schemes in *respect of non-retail supplies* will be withdrawn.

Those persons making both retail and non-retail *supplies* will be able to use retail schemes for their retail supplies only.

Clearer guidance on the rules for permitted mixtures of retail schemes will be given in Notice 727, VAT Retail Schemes.

This is in line with the proposals *in the consultation paper.*

Regulation 3 of the Retailers Regulations, which gives the Commissioners powers to refuse the use of retail schemes, will be amended to improve clarity.

This is in line with the proposal in the consultation paper.

It is planned that all the changes concerning retail schemes will have effect from October 1 1987. For "*non-retailers*" currently using retail schemes, a period of grace will be allowed to enable them to make the necessary adjustments to their accounting systems. Further information on the changes will be available *from local VAT offices in May,* and new retail scheme notices *will* be published *before* September.

Revenue *effect of the package:*

It is estimated that the total cost of these proposals will be £115m in 1987-88 and £60m in 1988-89.

On October 24 1986, Mr Peter Brooke, MP, the Minister of State at the Treasury, announced the publication by HM Customs and Excise of a consultation paper VAT: Small Business Review, which contained *a package of value-added-*tax proposals designed to help small businesses. At the same time a question and answer leaflet was sent to a representative *sample of 5,000* small businesses.

In total 192 responses were received to the consultation paper and 1,256 responses to the leaflet. The overwhelming *majority of* respondents welcomed both the small business review *itself and the* opportunity to participate. While generally supportive of the *majority of the proposals,* the responses also made suggestions for improvement and change.

Package to combat avoidance of VAT could add £300m to coffers

CUSTOMS and Excise issued the following statement *after* the Chancellor's speech:

In his Budget statement, the Chancellor announced a package of measures designed to prevent distortion to trade and to combat VAT avoidance. Most of the measures follow from the *consultation document issued* by Customs and Excise on August 7 1986, entitled VAT: Input Tax: Origin *and Scope of the Right* to Deduct.

The Chancellor announced in Parliament on December 19 the changes he intended to introduce. The principal measures are:

Deductible input tax:

From April 1 1987 a VAT registered *business will be able* to recover as input only tax that VAT which is attributable to: business *taxable supplies*; business supplies outside the scope of UK VAT because they take *place outside* the UK *but* which would have been either standard or zero-rated supplies had they been made in the UK; business supplies of warehoused goods disregarded under section 35 *of* the VAT Act 1983.

VAT input tax on overheads, including research and development, is deductible in full provided such expenses are used to support the activities of the business as described above. Only if such expenses were used to support other activities would a restriction on recovery of input tax apply.

One of the main effects of the changes will be to prevent the recovery of VAT input tax *in relation to future* exempt supplies. In the past some businesses have taken advantage of weaknesses in the current partial exemption rules and by *carefully* timing when exempt supplies are made have recovered input tax to which *they* are *not, in* principle, entitled. Many other businesses have not sought to take advantage *of these* weaknesses and as a result have been placed at a competitive disadvantage.

Section 15 of the VAT Act 1983 (as amended) permits *Customs* and Excise to make regulations to secure a fair and reasonable attribution of input *tax to taxable supplies* and to adjust input tax which has been wrongly attributed.

A revised edition of Notice 706 Partial Exemption gives full details of the new partial exemption "de minimis" rules and of a new standard method *for apportioning* input tax.

Customs will continue to allow alternatives to the "*standard method*" *of apportioning* input tax provided they are practical, accurate and fair—agreement has, for example, been reached with representatives of the brewing industry on *a special method* for calculating input tax in relation to tied properties.

Registration of traders:

From Royal Assent Item 2 of, and Note 1 to, Zero Rate Group 15 (*transfers* of goods and services from the UK by a business operating both inside and outside the UK) will be repealed. Many businesses which were registered for VAT because they were making supplies which were zero-rated under Item 2 will remain eligible *for* registration under the new arrangements set out below.

Schedule 1 to the VAT Act 1983 will be amended from Royal Assent to enable businesses which make no taxable supplies in the UK but make overseas business supplies which are *outside* the scope *of* UK VAT (but which would have been either standard or zero-rated supplies if they had been made in the UK), and businesses which make business *supplies of* warehoused goods which are disregarded under section 35 of the Act, to apply *for VAT* registration *so as to* recover the input tax attributable to such supplies.

Businesses affected by these changes must review their eligibility to remain VAT registered. Should they be eligible and wish their VAT registration to continue, they should make written application to their local VAT office. Businesses no *longer eligible* must apply for deregulation.

Exemption of services related to capital issues:

From April 1 1987, the making of arrangements for and the underwriting of capital issues will be exempt from VAT.

Acquisition of a business by a *partly exempt VAT group:*

From April 1 1987, a new provision will come into effect under which partly exempt companies VAT grouped under section 29 of the VAT Act 1983 may, in certain circumstances, be required to treat the acquisition of business assets on the transfer of a business or part of a business as a going concern, *as* both a supply by and to the representative member of the VAT group. The representative *member* will be required to account for VAT on a supply of any chargeable assets transferred and can recover input tax in accordance with its normal partial exemption method in the tax period in which the assets are acquired.

Valuation *of exempt supplies:*

Currently, the special valuation provisions in Schedule 4.1 of the VAT Act *1983* do not apply to exempt supplies. They will be amended so the commissioners may direct that exempt supplies made between connected persons shall be valued at the open market value. This change is necessary to prevent distortion of the partial exemption calculations through artificial valuation of supplies.

Revenue effect

The total package will prevent an estimated revenue loss of £300m in 1987-88.

A full copy of the deductible import tax regulations giving effect to certain of the changes outlined above was yesterday sent to all parties who have previously indicated they wanted one. Further copies can be obtained from: *HM* Customs and Excise, VAT Administration Directorate (VAD 6), Room 206, *Knollys House*, 11, Byward Street, London, EC3R 5AY.

The regulations will be laid in the Commons at the end of the Budget debate and are available in the interim in the Commons *Library.*

The revised partial exemption Notice 706, transitional arrangements leaflet and copies of Budget notices (BN 3/87 and 4/87) covering the following points are available from local VAT offices.

VAT: restriction of input tax; registration of overseas traders and repeal of zero rate Group 15 Item 2; registration of traders making supplies of warehoused goods; exemption of certain services related to capital issues.

VAT: acquisition of a business as a going concern by a partly exempt VAT group.

From April *1 1987*, VAT relief will be extended to: the installation or adaptation of any *bathroom, washroom or lavatory* facilities for the handicapped in charity residential homes; drugs and chemicals used directly by a charity in medical research; certain vehicles for use by hospices for transporting the terminally ill; and specialised location and identification equipment for use by charitable rescue and first aid services.

The new reliefs are contained in the VAT (Charities) Order 1987 laid before parliament today.

The relief for bathroom, washroom or lavatory facilities encompasses an *existing* extra-statutory concession for individual facilities in a charity residential *home for the handi*capped. The order also gives statutory effect to an existing *extra-statutory* concession for the donation for export of goods to a charity established for the relief of distress.

The effect of this package is to extend the VAT reliefs at present available to charities and eligible bodies at a cost of about £5m in 1987-88. The amendments are to groups 14 and 16 of Schedule 5 of the VAT Act 1983.

In group 14 zero-rating will for the first time be available for the installation or adaptation (including the supply of related goods) of all bathroom, washroom or lavatory facilities for the handicapped in residential homes run by charities. This will parallel the existing reliefs for the same facilities *for the handicapped in private* residences.

In group 16 the new zero-rating for drugs and chemicals directly used in medical research extends last year's *relief for* medicinal products to charities engaged in medical research. The extension of relief *to welfare vehicles (with six* to 50 seats) for transporting the terminally ill is a further addition to the relief given last year for vehicles for the deaf, blind or mentally handicapped. The eligible bodies entitled to relief include health authorities *and non-profit making hospitals* as well as charities.

The zero-rating of specialised *location* and *identification* equipment for charitable rescue and first aid services covers *some of the most expensive* items in these charities' expenditure and should be of particular benefit in mountain rescue work.

Under a special VAT margin *scheme for tour operators*, UK-based tour operators who buy in services for their customers will have to pay VAT on the margin between their buying and selling prices if the services are to be used anywhere in the European Community, including the UK. Tour operators will also not be able to recover any VAT which may be charged by their *suppliers for such services.*

The services affected are *those bought and sold for the* benefit of travellers, including accommodation, transport and holiday services (but it is expected transport will be zero rated). Services which tour operators supply from their own resources will not be covered by the scheme and will continue to be taxed according to normal VAT rules.

Consultations have been taking place between Customs and Excise and the Association of British Travel Agents. Detailed guidance about the operation of the scheme will be published later this year. The scheme *is* expected to start from April 1 1988. It will yield about £20m in 1988-89.

The scheme is a requirement under Article 26 of the EC Sixth Directive. Forewarning of the Chancellor's intention to introduce it was given on Budget day last year. At present tour operators' services in re*spect of overseas package tours* are not subject to UK VAT.

At present, where for business purposes a registered trader buys in certain services from abroad, he has to treat *them as if he had supplied* them himself and charge himself tax. Businesses which are *not* registered because they deal wholly or mainly in exempt supplies do not, under existing law, have to count the cost of imported services as taxable turnover for the purposes of the quarterly or annual registration limits, and can thus *avoid* the need *to* register and account for VAT on the services in question.

The proposed change in the law will close this loophole. As a result exempt businesses will have to register where the value of their taxable supplies and the cost of the relevant *imported services together* exceed the turnover limits. They will then pay the tax due on imported services and on any taxable supplies of their own in the same way as existing registered businesses already do.

Because of the loophole, exempt businesses have been able to import certain services VAT *free* and avoid the tax that they would have had to pay on identical services bought from UK registered traders.

The imported services in question include advertising, data processing and professional and consultancy services. There is evidence of *avoidance particularly* in relation to newspaper advertising ordered through agencies in the Channel Islands. The change (to section 7 of the VAT Act 1983) will put an end to unfair competition with UK businesses and will prevent a *loss of revenue which would* have amounted to about £5m by 1988-89. Full details of imported services affected are in Schedule 3 of the VAT Act 1983.

The annual registration limit is being increased from £20,500 *to £21,300 and the single quarterly registration limit is being* increased from £7,000 to £7,250, from midnight yesterday.

Cancellation of registration:

The limit will be increased from £19,500 annually to £20,300 (inclusive of VAT) from June 1 1987 for persons considering cancelling registration on the basis of their expected future turnover.

Persons will also be able to apply for cancellation of their registration after June 1 1987 *if* they have been *registered* for two years and their turnover (inclusive of VAT) in each *of those years has not exceeded* £21,300 and provided they do not expect their turnover to go above £21,300 in the year then beginning.

An estimated 14,000 extra persons will be eligible to request cancellation of their *registration as a consequence* of these changes.

Detail of the changes in the registration and cancellation limits are contained in Customs and Excise Notice BN 1/87. Copies will be available at all local VAT offices.

Construction faces changes in PAYE

THE Inland Revenue issued the *following statement* after Mr Lawson sat down.

The Chancellor proposes to take steps towards tightening up the collection of PAYE and *improving* the operation of the deduction schemes for subcontractors in the construction industry.

These measures are in line with the recommendations of the *Keith Committee* and were identified *for* early consideration in the consultative *document* The Inland Revenue and the Taxpayer, published on December *12 1986 in response* to the recommendations of that committee.

PAYE:

It is proposed to:

Charge interest on tax paid late *in circumstances* where the inspector has had formally to determine the amount *due because* PAYE has not been properly applied at the right time by the *employer.* The *interest* charge will commence 14 days after the end of the tax year to which *the* tax relates, and take effect from April 20 1988.

Clarify the meaning of "payment" for PAYE purposes—for example, where sums are *credited to an employee's* account or remuneration is voted.

Subcontractors:

It is proposed that:

There will be an *interest* charge, again from April 20 1988, where formal assessments are made by the *inspector* to recover money which a contractor should have deducted from *payments* to sub-contractors.

Companies with a sub-contractor tax exemption certificate will be required to notify the Revenue of any change in company control; *failure to comply* could lead to withdrawal of the company's certificate.

There will be a new right of appeal against the Revenue's cancellation of sub-contractor certificates.

The Revenue will be empowered to *require* production of a contractor's records.

There will be new *safeguards for contractors* in certain circumstances where they have *incorrectly paid subcontractors without* deduction.

Restrictions on relief for overseas loan

THE Inland Revenue issued the following statement after the Budget speech:

The Chancellor proposes in his Budget to restrict the double *taxation relief* available to banks engaged in lending to non-residents.

In addition to enjoying a full deduction for interest paid on funds borrowed to finance such lending, banks are at present entitled to credit the full amount of any foreign tax (subject to an overriding limit of 15 per cent of the gross interest) on the interest received from an overseas borrower against the corporation tax on their profits as a whole. In future, looking at each loan separately, *they will be able* to offset tax credit relief for foreign withholding tax paid on the interest they receive against the corporation tax on the profit only on that loan.

In the case of loans made on or after April 1 1987, the new measures will apply to interest *arising from that date.* In the case of loans already in existence on that date, the new measures will apply to interest arising from April 1 1988.

The new measures apply both to UK banks and to the *branches* and subsidiaries of foreign banks which undertake overseas *lending business* from the UK.

The yield will be negligible *in 1987-88 but should build up* over time from about £20m in 1988-89 to £60m in 1990-91. The *yield is* sensitive both to future patterns of overseas lending business and to the banks' *cost* of borrowing to on lend. The estimate assumes an illustrative *rate of* dollar LIBOR of 6 per cent.

The Inland Revenue will be discussing the operation of the new rules with the banking *associations*, with the objective of keeping to a minimum the costs of compliance.

Move on BES investment

AFTER the Chancellor sat down the Inland Revenue issued the following statement on the Business Expansion Scheme:

The Chancellor proposes in his Budget changes to the *Business Expansion Scheme* which will: reduce the bunching of investment towards the last *quarter of the tax year; and* improve the effectiveness of the scheme for film production companies.

Bunching

The investor will be able to claim up to one-half of the BES relief against his income of the *previous tax year subject* to two conditions:

- the investment must be made in the first *half* of the *tax year* (between April 6 and October 5 inclusive); and
- the carry back will be subject to a maximum of £5,000 in respect of the total BES investments made in this period.

The option will apply to investments made after April 5 1987 and can be exercised only when the relief is claimed. The balance of the relief will continue to be allowed for the year in which the BES investment *is actually made.*

Film production companies

Up to now, film production *companies* have been eligible for BES status only if they are engaged in film production throughout the three year qualifying period. For shares issued from today, a company will qualify if throughout the period it is engaged either in film production or in the distribution of films produced during the period.

In practice this will help a company set up to produce a single film where the production is likely to take less than three years. The company will in future be eligible for relief if it spends the remainder of the period distributing the film.

The Chancellor proposes in his Budget to align the dates *on which* interest and certain other payments are treated as paid and received for tax purposes. The new rules will apply where the payment is between *companies within* a group or under common control and is made on or after March 17 1987.

Background:

It is possible for interest to be treated for tax purposes as received by the lender on a different date from that *on* which the borrower is treated as having paid it (for example, where interest is paid by a cheque). This gives scope for deferral of tax by companies within a group (or under common control) if the dates of payment and receipt for corporation tax purposes straddle accounting periods, i.e. relief for the interest paid is given in the earlier period, but there would not be tax on the interest received until the later period.

The new rules:

Payments which are "charges on income" for the purposes of corporation tax (for example, yearly interest, annuities or other annual payments) and which are made on or after March 17 1987 between companies within a group or under common control, will be treated for corporation tax purposes as received on the same day as they are paid. But the new rule will apply only if the payments are assessable on the recipient under Case III of Schedule D. In other words, companies which would be assessed on the interest as a trading receipt will be excluded from the change.

There will be a similar change *in the provisions* concerning the collection of income tax on company payments which are not *distributions* (Schedule 20 to Finance Act 1972), if the payment would under the new rules be *treated for corporation* tax purposes as received in an earlier accounting period.

Betting duty changes

HM CUSTOMS and Excise issued the *following* statement after the Chancellor's speech:

In his Budget statement today, the Chancellor *of* the Exchequer announced changes to the betting and gaming duties.

General betting duty: The duty on on-course betting (now 4 per cent) will be abolished with effect from March 29 1987. (The *duty* on off-course betting remains unchanged at 8 per cent.)

Gaming machine licence duty: Rates will be increased with effect from June 1 1987.

(a) Amusement-with-prizes in public houses, arcades, etc:

5p machines (now *£120*) will be £150 pa.

10p machines (now £300) will be £375 pa.

(b) Jackpot machines in clubs etc:

5p machines (now *£300*) will be £375 pa.

10p machines (now £750) will be £960 pa.

Gaming machine licence duty collection arrangements:

Changes in the arrangements for the collection and repayment of gaming *machine* licence duty will operate from October 1 1987. All licences will be available from *the first* day of any month and quarter year special licences will be available for the first time. *Refund* terms on *surrender* of licences will be improved.

Revenue effect: The overall revenue effect will be neutral, the estimated £20m annual loss from the abolition of on-course betting duty being recouped *from* the increase in gaming machine licence duty revenue.

Public notices: *Full particulars of the* changes are given in Customs and Excise Notices BN 8/87 (On-course Betting)

Support for retraining

AFTER the Chancellor's speech the Inland Revenue issued the following statement:

The Chancellor proposes in his Budget to introduce tax relief to support retraining in new work skills which employers provide *for employees* who are leaving, or have left, to help them exploit new employment and *business opportunities.*

The proposals are aimed *at* employees who are either about to leave their current jobs or who have *already* left. *It is intended that:* the *employee* will no longer be taxed on the benefit of the expenses of a training course paid for or reimbursed by the employer, where the course is concerned with retraining in new work skills or knowledge for use in a *new job* or business; the *employer* will (*in those circumstances* where he is not able to do so already) be able to deduct the cost of such training in calculating his taxable profits.

The *provisions* will apply to qualifying training course expenses incurred on or after April 6 1987. The detailed provisions will be included in the Finance Bill.

Unleaded petrol duty cut

THE CHANCELLOR announced a cut in the duty on unleaded *petrol of 5p a gallon* (1.1p a litre), including VAT. It previously bore excise duty at the same *rate* as *leaded petrol.* The reduction applies to all unleaded petrol cleared at import or from bonded warehouse from 6 pm yesterday.

Unleaded petrol is defined as petrol containing not more than 0.02 grams of lead per litre (0.013 grams per litre from April 1 1990). The duty rates on leaded petrol, derv and other *hydrocarbon oils* reamin unchanged.

A Customs and Excise statement said the revenue effect in 1987-88 of the cut in unleaded petrol duty would be negligible.

Pension reform package aims to broaden base

The Inland Revenue issued the following statement after the Chancellor's speech.

The Chancellor proposes in his Budget a major tax reform package for pensions.

- There will be attractive tax reliefs for the new personal pensions, which will be available for both employees and the self-employed.
- The introduction of personal pensions has been brought forward (from expected April 1988) to January 4 1988.
- Members of occupational pension schemes will have the right, from October 1987, to pay "free-standing" additional contributions to a separate pension plan of their own choice.
- Simplified "no frills" occupational schemes — either "defined benefit" or "defined contribution" — with minimum "red tape" will be available for employers who at present do not normally provide pension arrangements for their employees.
- It will be made easier for people to transfer between different schemes when they change jobs.
- The scope for exploiting the tax reliefs, particularly by very high earners, will be curbed.

These reforms, taken together with other radical changes already made in the pensions field, will result in more people having their own pensions on top of what the State provides; give everybody more choice in how to provide for their retirement; allow a much greater sense of ownership of pension rights; make it easier for people to take their pensions with them when they change jobs; and help ensure that the tax reliefs are used for genuine provision for retirement.

The Chancellor's reform package aims to provide a better — and fairer — pensions deal, not only for the 11m people who are currently in pension schemes, but also for the millions of employees who are not.

Tax reliefs for personal pension schemes:

As promised in the recent consultative document "Improving the Pensions Choice," this year's Finance Bill will contain legislation to establish a new tax regime for personal pensions; both for employees and the self-employed. This legislation will replace the present provisions for retirement annuities (in Section 226 et seq of the 1970 Taxes Act).

The consultative document outlined the main features of the new regime: no limit on total benefits; tax-free lump sum (subject to a limit); tax relief on contributions, provided they do not exceed annual limits (17.5 per cent of income up to age 50, up to 27.5 per cent for older people); benefits to be based on "money purchase" (ie what the accumulated fund will buy).

Transitional arrangements will ensure that existing retirement annuity contracts continue to benefit from tax relief.

"Improving the Pensions Choice" proposed a number of improvements in the present rules. For example, provision for contributions by employers (within the overall limit) and improvements in the higher contribution limits for older individuals. In the light of comments received on that document, further improvements are proposed: the suggestion that people should be limited to one personal pension at a time has been dropped; the certification arrangements (to monitor compliance with the tax rules) will be simplified to ensure there is no substantial additional burden on employers; and there will be a new, simpler rule for calculating the proportion of benefit that can be taken as a tax-free lump sum (a straight 25 per cent of the fund).

Simplified occupational pension schemes:

The consultative document promised new simplified occupational schemes, with minimum red tape, providing "no frills" benefits. These schemes may either be subject to the usual final salary limits on benefits ("defined benefit") or —an important innovation—be limited only by reference to contributions ("defined contribution"). The concept of these simplified schemes, which will help many small employers to set up their own pension scheme, was widely welcomed.

Both types of scheme can be approved under the Inland Revenue's existing discretionary powers of approval (Section 20, Finance Act 1970). Detailed guidelines on how they will operate will be published shortly. And, as promised in the consultative document, the Inland Revenue will be preparing standard scheme documentation which will be available to any employer who wants a simplified, "off the peg" scheme.

Improved transferability of pension rights:

The consultative document proposed an important change in the present rules, in order to allow much greater transferability between different types of pension arrangement. This will enable people who change

> 'The suggestion that people should be limited to one personal pension at a time has been dropped.'

their jobs in mid-career to take their pension rights with them.

In general, the consultative document proposed complete freedom to make such transfers. But, in view of the different rules for occupational schemes and other types of scheme, it invited views on two aspects of the proposals.

- Death in service benefits. Where a transfer was made from a final salary related occupational scheme to a personal pension, the document proposed that, if there was a surviving spouse or dependent, the personal pension should provide for the transfer value to be paid out only as an annuity. This was criticised as unduly restrictive, and it is now proposed that, in these circumstances, up to 25 per cent of the transfer value may be paid out in the form of a tax-free lump sum.
- Manipulation of benefit limits. Completely free transferability could facilitate misuse of the tax reliefs to circumvent the benefit limits applicable to occupational pension schemes. The consultative document suggested two possible safeguards against such misuse. Some of the representations on these proposals identified other possible approaches, which at first sight seem worth exploring. Further consultations will therefore be undertaken.

The detailed rules concerning transfers will be contained in regulations to be laid in the autumn, after the Finance Bill has become law. It is proposed to publish them in draft, for prior consultation.

Employees free to make additional pension provision outside their employers' schemes:

Occupational pension scheme members are already able, if permited by the rules of their scheme, to top up their pension expectations by payment of additional voluntary contributions (AVCs)—subject to the limit of total benefits and the 15 per cent ceiling on employee contributions. Under the Social Security Act 1986, all occupational schemes will in future be required to offer such a facility.

But the rules governing AVCs have sometimes been criticised as too inflexible because: contributions could only be paid to an AVC scheme set up by the employer; and once payments had started, they had to continue for at least five years.

Two important relaxations are therefore proposed. With effect from October 1987 occupational scheme members will be able to pay "free-standing" AVCs to their own plan—ie completely separate from their employer's scheme — though they will still need to remain within the present limits on total contributions and benefits. And from next month they will be free (if scheme rules permit) to vary the amount and timing of such payments as they think fit.

Since these changes are intended to help occupational scheme members enhance their pension expectations, it will not be possible for any of the rights secured by AVCs to be commuted into a tax-free lump sum.

Exploitation of the tax reliefs for pensions:

The generous tax treatment for pensions is justifiable only if the tax reliefs are not misused. It is therefore proposed to make a number of limited changes to restrict exploitation, particularly by a small number of very high earners: The definition of "final remuneration" will be tightened up, to prevent artificial inflation of the figure on which benefits are based. In general, this will apply to all arrangements made on or after today (Budget Day); A limit of £150,000 will be placed on the proportion of benefits which can be taken as a tax-free lump sum (without reducing total benefits). This will apply on or after today (Budget Day) to all new schemes and new members of existing schemes; It will not be possible for maximum pension and (except in certain limited circumstances) lump sum benefits to accrue in as short a period as at present. This will apply on or after today (Budget Day) to all new schemes and new members of existing schemes.

These changes are explained more fully in the attached background document.

Administrative streamlining:

Minor changes are proposed in the 1970 legislation to clear up two points of detail concerning the tax approval of occupational pension schemes.

Representative bodies in the pensions field will be invited to discuss possible changes, simplification and streamlining of Inland Revenue administrative procedures.

These proposals are explained more fully in the attached document.

Cost:

The cost of the overall package will depend on take-up, but is provisionally estimated at £65m in 1988-89.

OCCUPATIONAL PENSIONS: TAX LAW AND PRACTICE

Background document to the Budget proposals:

In his Budget, the Chancellor proposes a major tax reform package for pensions: attractive tax reliefs for personal pensions; more flexible rules on employees' pension contributions; simplified "no frills" occupational schemes; greater transferability between different types of scheme.

He also proposes changes in two aspects of occupational pensions law and practice: measures to counter exploitation of the tax reliefs, particularly by some very high earners; and measures to streamline the administrative procedures concerned with tax approval of schemes, together with possible simplifications in current Revenue practice.

This document describes these two aspects in more detail.

Exploitation:

The generous tax regime for pension provision is to encourage and facilitate proper provision for retirement. It is not, and was never, intended to be just a tax efficient medium for investment generally. With further reliefs proposed this year, the Government regards it as important to ensure that the system is not exploited. The Chancellor therefore proposes the following changes.

Definition of final remuneration:

Present tax law (Section 26(1) Finance Act 1970) defines "final remuneration," for the purpose of calculating an individual's pension benefits, as the average annual remuneration of the last three years' service. "Remuneration" may include basic salary and certain other emoluments.

Under the Inland Revenue's discretionary powers, two alternative, more flexible, definitions may be approved for the calculation of benefits: for any single year in the last five before retirement, basic salary plus fluctuating emoluments such as bonuses, commission, benefits in kind, etc (which may have to be averaged over a suitable period); or average total emoluments for any period of three or more years ending in the last 10 years before retirement.

"Controlling directors" (i.e. controlling, directly or indirectly, 20 per cent or more of the company's ordinary share capital) must use the second definition.

The present rules can be manipulated in a number of ways in order to inflate artificially the figure of "final remuneration": taxable income from share options etc can be made to arise in the final year, in a way which avoids the averaging rule; an excessive pay increase can be awarded in the final year; a controlling director may resign from the board (while retaining effective control) shortly before retirement, so as to benefit from the more flexible definition in paragraph 6a above.

These arrangements, which are likely to be confined to directors and senior executives on high salaries, undermine the original intention of the concessions. The Chancellor does not believe they are justified any longer. He therefore proposes the following changes: income or gains in respect of share options etc will be excluded from "final remuneration"; all employees whose annual "final remuneration" is £100,000 or more in 1987-88 and subsequent years (or such higher figure as may be prescribed by Treasury order) will be subject to the definition in paragraph 6b above. An employee whose annual remuneration is £100,000 or more in 1986-87 and who will retire within five years will be allowed to use the paragraph 6a definition, provided the pension calculation is based on the 1986-87 figure; any employee who is a "controlling director," or has been within the previous 10 years, will be subject to the definition in paragraph 6b above.

In general, these changes will apply to all arrangements entered into on or after today (Budget Day) by all members of occupational schemes. Legislation will be included in this year's Finance Bill to provide statutory backing for these changes, and to override the rules of existing occupational schemes and arrangements.

Maximum pension benefits:

Most ordinary members of occupational pension schemes will qualify for pension benefits based on a fraction of their final remuneration for each year of service until retirement. For tax approval purposes, this fraction may not normally exceed 1/60; and length of service may not normally exceed 40 years. This produces the maximum benefit of two-thirds final salary (40/60).

But—if the employer agrees —certain privileged employees may qualify for maximum pension benefits after as little as ten years' service to the scheme's normal retirement date. This is known as "accelerated accrual" or "uplift." Although, for these purposes, the maximum benefit has to take account of "retained benefits" from earlier employments, this concession usually requires very large pension contributions by the employer, which benefit from tax relief in the normal way. The cost of funding for benefits at these levels is the reason that so few employees receive such treatment.

The present "accelerated accrual" rules are too generous, given that the fundamental purposes of the present tax regime is to provide pension benefits related to the income customarily earned by an individual during his whole working life. The Chancellor therefore proposes a new scale of "accelerated accrual," based on a period of 20 years' service to normal retirement date.

He also proposes a modest relaxation in the scale, which at present confers no advantage over the normal 1-60th accrual rate for service of five or less years to retirement. Henceforth

> 'The cost of the overall package will depend on take-up, but is estimated as £65m in 1988-89.'

the scale will be on a straight-line basis, with the maximum permissible accrual rate being 2-60ths final remuneration for each year of service, up to 20 years.

These changes will apply from today (Budget Day) to all new occupational pension schemes and arrangements and all new members of existing schemes. Legislation in this year's Finance Bill will set out the detailed rules and will override the rules of existing schemes accordingly.

Maximum lump sum benefits:

Under present rules, the maximum tax-free lump sum on retirement (which is obtained by commuting part of the total pension benefit) should not normally exceed 1.5 times final salary.

The Chancellor proposes two adjustments to these rules.

The first proposal is that no tax free lump sum should exceed £150,000. This is the maximum lump sum benefit for which someone with final remuneration could qualify. For the very few people whose final remuneration is higher, their lump sum will be calculated by reference to number of years service to retirement as if their final remuneration was £100,000.

A similar limit will apply for personal pensions (and, in the meantime, for retirement annuity contracts made from today).

This change will apply to any schemes and arrangements set up from today, or to people joining existing schemes from today. The necessary legislation will be included in the Finance Bill.

The second proposal concerns the "accelerated accrual" rules for lump sums. On normal accrual rates, the maximum lump sum is 3-80ths final remuneration for each year of service, up to 40. This produces the maximum lump sum of 1.5 times final salary (120-80ths). But "accelerated accrual" also applies for lump sum benefits, with the maximum being possible after 20 years' service to the normal retirement date of the scheme.

Under present practice, it is possible for an individual's total benefits to be based on normal accrual rates, but for his lump sum benefits to be based on "accelerated accrual." This enables the (tax free) lump sum to be maximised at the expense of the (taxable) pension. There is no justification for this, and the Chancellor therefore proposes that, from today, for the purposes of new schemes and new members of existing schemes, retirement lump sum benefits may be calculated by reference to "accelerated accrual" *only* if total pension benefits are based on the new maximum "accelerated accrual" rate of 2/60 for each year of service, up to 20 years (paragraphs 13 and 14 above).

Neither of these changes need have any effect on an individual's *total* pension benefits. They only restrict the amount of those benefits which can be taken in the form of a tax-free lump sum.

Administrative improvements and simplification:

The Inland Revenue consultative document "Improving the Pensions Choice," published in November 1986, indicated (paragraph 7.3) that a review of current occupational pensions procedures was in progress. The purpose of the review was to examine the scope for possible improvements and simplifications in the present rules and arrangements.

The following possible changes have been identified.

Tax approval of occupational pension schemes:

Two detailed changes are proposed in the present legislation (Section 19 et seq, Finance Act 1970): an amendment to Section 19(3), concerning the Board of Inland Revenue's power to withdraw a scheme's approval. Doubts have been expressed as to whether such a withdrawal can be backdated to the time of the offending event or transaction (as had been thought). The amendment will establish beyond doubt that this can be done; an amendment to Section 20, to clarify the scope and extent of the discretionary powers conferred on the Board by this provision. The amendment will make it clear that, notwithstanding these general discretionary powers, some of the fundamental conditions for approval are firm, and not subject to variation or waiver at the Board's discretion (for example, the maximum benefit limits). The amendment will also enable additional conditions to be prescribed in particular circumstances (eg, for the approval of small self-administered schemes). The relevant conditions will be contained in regulations made by Statutory Instrument.

Approval procedures:

Amendments will be proposed to the legislation concerning the Board's powers to obtain information in connection with an application for approval (paragraph 6, schedule 5, Finance Act 1970). These will enable the Board to prescribe: what information about the scheme is to be provided at the time of the application; and the form in which such information should be provided.

Over the coming months, the Inland Revenue hope to discuss with interested representative bodies possible ways in which present procedures could be further streamlined, for example by a greater reliance on standard documents.

Conditions for approval:

The Inland Revenue also hope to have further discussions with the pensions industry on possible simplifications in the present conditions for approval. Two areas in particular need to be examined, with a view to achieving some relaxations in the present requirements: the conditions which apply to industry-wide schemes; and the rules concerning pension benefits payable to people taking voluntary early retirement and the interaction of those rules with additional voluntary contributions.

Inland Revenue details effects of taxation changes

THE Inland Revenue issued the following statement after the Chancellor's speech.

Reduction in the basic rate of income tax: The Chancellor proposes in his Budget to reduce the basic rate of income tax for 1987-88 from 29 per cent to 27 per cent. The reduction will take effect from April 6 1987.

Deduction of income tax from annuities, interest etc.:

The Chancellor of the Exchequer announced that the basic rate of income tax to be imposed for the year commencing April 6 1987 will be 27 per cent. A resolution to this effect will be placed before the House of Commons within the next few days and if passed will have statutory effect under the Provisional Collection of Taxes Act 1968.

Where there is a right or an obligation to deduct tax at the basic rate from the payment of annuities or other annual payments (including alimony), interest, royalties etc., the rate at which tax deductions should be made after April 5 1987 will be the new rate. But, in the case of interest on securities of bodies corporate in the UK, including local authorities, deductions at the old rate of 29 per cent will be deemed to be legal deductions for a period of one month from the date of the passing of the appropriate resolution, subject to adjustments later to give effect to the new rate for the year (see next paragraph).

Where payments have been made on or after April 6, 1987 from which tax has been deducted at the rate of 29 per cent the over-deduction will be adjusted as follows:

(a) Interest on UK Government securities and foreign dividends paid in the UK: HM Inspector of Taxes, on application by the recipient, will either repay the excess tax deducted or make an appropriate allowance against some subsequent tax assessment. Applicants for repayment will need to furnish evidence (normally counterfoils obtainable from the paying agents or bankers) showing that they have suffered deductions of the amounts claimed.

(b) Annuities, annual payments (including alimony), royalties etc and other types of yearly interest (including those received from companies or local authorities): it will be the payer's responsibility to repay or make good to the recipient the amount of any excessive deduction of tax made by reference to the earlier rate of 29 per cent. This will usually be done at the time of the next payment of a similar nature. Where a company or local authority security has been sold since an over-deduction of tax at 29 per cent the person entitled to the security at the time the over-deduction is made good will be entitled to the benefit of the adjusting payment.

This notice refers only very broadly to the effect of the change of the basic rate for 1987-88 on the deduction of tax provisions. The Inland Revenue will shortly be issuing a Circular (Deduction of Income Tax from Interest etc—1987-88) setting out in more detail for payers and recipients the full implications in relation to each of the different types of payment which are subject to the deduction of income tax at source. Copies of this circular will be obtainable from the Office of any Inspector of Taxes.

Effect on deeds of covenant: The reduction in basic rate will alter the amount of tax to be deducted at source from payments due, from April 6, 1987 onwards, under deeds of covenant. The precise result will depend on whether the covenant is expressed in "gross" or "net" terms.

"Gross" covenants: Under a "gross" covenant, the covenantor undertakes to pay (for example) £100 a year less tax. At present, with a 29 per cent basic rate of tax, At present, with a 29 per cent basic rate of tax, he deducts £29 tax and pays the recipient £71. The recipient may be able to reclaim all or part of the £29 tax from the Inland Revenue, depending on his or her personal circumstances.

The reduction of basic rate for 1987-88 means that the payer should deduct tax at 27 per cent instead of 29 per cent from payments due on or after April 6 1987. Thus in the example above, the payer should deduct £27 tax and pay the recipient £73. Because the covenant is a legally binding deed, he will have a legal obligation to increase the net payment to £73. If his payments are made by standing order, he will need to change his standing order accordingly.

If the covenant is in favour of a charity, the payer may be entitled to relief at the higher rates of tax for the gross amount (in the example, £100).

"Net" covenants: Under a "net" covenant, the amount to be paid is fixed in net-of-tax terms. For example, the covenantor undertakes to pay each year such sum as will leave £71 after deducting tax at the basic rate for the year.

At present the £71 net represents £100 gross less £29 tax. The reduction in basic rate means that, for payments due on or after April 6 1987, the £71 net will represent £97.26 gross less £26.26 tax (for example at 27 per cent on £97.26). The maximum tax available for repayment to the recipient is thus £26.26. Claims to repayment of tax should be based on a 27 per cent rate rather than 29 per cent.

If the covenant is in favour of a charity, any higher rate relief due to the payer will be given on £97.26.

Advance Corporation tax and tax credit on dividends: There will be no change in respect of dividends paid on or before April 5 1987. Companies should pay advance corporation tax (ACT) at the rate of 29/71sts of the dividend. The tax credit will be a similar proportion of the dividend and will satisfy the income tax liability of the shareholder at the present basic rate of 29 per cent.

For dividends paid on or after April 6 1987, companies should pay ACT at the rate of 27/73rds of the dividend. The tax credit will similarly be 27/73rds of the dividend and will satisfy the income tax liability of the shareholder at the new basic rate of 27 per cent.

When a dividend due to be paid on or after April 6 1987 has already been declared, or a dividend voucher is already in the hands of the printer showing tax credit at the rate of 29/71sts, the company should nonetheless pay ACT at the new rate. If the taxpayer is liable to income tax at the basic rate only, he need take no further steps. If he is exempt from income tax the Inland Revenue will pay the tax credit to him at the new rate: if he is liable to the higher rates of income tax the tax office will calculate his income on the basis of the dividend received plus the tax credit at the new rate.

A company's accounting period may be broken into two separate accounting periods for the purposes of ACT. If the company makes a distribution on or before April 5 1987 and subsequently makes or receives a further distribution, then the parts of the accounting period up to and after that date are treated separately for the purpose of accounting for ACT. Franked investment income received after the date of the change cannot be set off against franked payments made before that date.

Construction industry tax deduction scheme: The deduction rate, to be applied to payments to uncertified sub-contractors, will be reduced in line with the basic rate to 27 per cent with effect from November 2 1987. In the meantime, contractors should continue to make deductions at the existing rate of 29 per cent. Later in the year contractors who are known to be operating the deduction arrangements will be notified individually of the change in rate.

Additional rate on trusts: The income of discretionary and accumulation trusts is charged to income tax at basic rate plus an additional rate which is fixed as the difference between basic rate and the second of the higher rates. When the trustees distribute the income to beneficiaries, the beneficiary gets credit for the basic and additional rate tax paid by the trustees, and may claim repayment where appropriate.

At present the additional rate is 16 per cent and the overall rate on these trusts 45 per cent. Under the Budget proposals, the basic rate for 1987-88 will be 27 per cent and the second higher rate remains at 45 per cent. The additional rate will therefore be 18 per cent, but the overall rate will remain at 45 per cent. Beneficiaries receiving income in 1987-88 will get credit for 45 per cent tax, whether the income was received by the trustees in 1987-88 or in an earlier year.

Tax relief on profit-related pay doubles to 50% of linked earnings

THE Inland Revenue issued the following statement after the Chancellor's speech:

In his Budget the Chancellor of the Exchequer proposed a new income tax relief for employees who receive profit related pay under registered schemes which link a part of their pay to profits.

The Chancellor said two considerable advantages flow from arrangements which relate pay to profits. First, the workforce have a more direct personal interest in the success of their business. Second, there will be a greater degree of pay flexibility in the face of changing market conditions. PRP is no panacea, but if it became widespread the extra pay flexibility would help to defeat the scourge of unemployment.

The Chancellor challenged British management to take advantage of this new tax relief for the good of their businesses, their workforce and the country.

The new tax relief would be broadly along the lines floated in the Green Paper published in July 1986. The principal change the Chancellor proposes is to double the proportion of an employee's profit related pay which will be free from income tax from a quarter to a half.

A half of PRP would be eligible for tax relief up to the point where PRP is the lower of 20 per cent of the employee's total pay or £3,000. So for a married man on average earnings receiving 5 per cent of pay in profit related form, the tax relief would be equivalent to a penny off the basic rate of income tax. For a married man getting 20 per cent of his pay as PRP, the relief could be worth as much as 4p off the basic rate.

The tax relief would be available to employees of profitable private sector employers who register their PRP schemes with the Inland Revenue before the profit year begins. It would be given by the employer through his operation of PAYE.

An outline of the proposed arrangements, which will be published in the Finance Bill and which are of course subject to parliamentary approval, is set out below. Also included is an address to which employers are invited to write if they would like to be included on a mailing list for Inland Revenue guidance notes on PRP.

What is PRP?

In a PRP scheme a part of pay moves up and down with profits so that employees' pay reflects the profit which has been earned by their work. The Government wants more businesses to set up schemes under which a formula links a part of pay automatically to the profits of the business.

PRP itself is not new. Although only a minority of the total workforce is covered, many successful UK firms already pay bonuses related to performance, under various names, and think they work well. What is new about PRP is that the Government now proposes a large measure of income tax relief to participants in registered PRP schemes.

How much will the tax relief be worth?

Half of PRP will be free of income tax up to the point where PRP is 20 per cent of pay or £3,000 a year, whichever is lower. For a married man on average earnings, the relief could add about £6 a week to take-home pay, equivalent to 4p off the basic rate of income tax. If only 5 per cent is PRP, the relief would be worth 1p off the basic rate of tax.

Will PRP be subject like other earnings to National Insurance Contributions?

Yes. Unless it is part of total earnings below the lower earnings limit for employers' National Insurance Contributions, however, PRP which is exempt from employers' NIC (for example, because it is paid through a trust) cannot also qualify for the income tax relief.

Who will be eligible?

The relief will be available to all private sector employees paying income tax through PAYE (except controlling directors). They will need to be included in a PRP scheme registered by their employer (in advance of its coming into operation) with the Inland Revenue. A scheme must relate to an employment unit which is either a whole incorporated or unincorporated business in the private sector, or a sub-unit of the business.

What are the necessary conditions for PRP schemes to qualify for registration?

The proposed rules have been kept to the minimum and are as simple as possible. Employers will be free to design their own schemes to meet their own needs provided they have certain basic features. Full details will appear in the Finance Bill, and guidance notes will be issued by the Inland Revenue when these proposals have become law.

The main qualifying features envisaged are:

- Schemes must establish a clear relationship between the PRP of the specified employment unit and the audited profits generated by it.
- New recruits and part-timers may be excluded, but at least 80 per cent of the other employees in the employment unit must be covered by the PRP scheme.
- At the outset of the scheme the prospect must be that if profits are unchanged total PRP produced by the first formula (above) will be at least 5 per cent of the total pay of participating employees.
- A scheme must last at least a year.

What are the main choices in designing a scheme?

The two main choices are the employment unit and the formula linking profits and PRP (for which a definition of profit is, of course, needed). It must be possible to produce audited profit figures for the employment unit chosen. Subject to that, the employer will be able to choose whatever unit makes sense in the circumstances of the business. Employers will also have a choice between two ways of linking profits and PRP:

- Total PRP (or the "PRP pool") can be a simple proportion of profits.
- The PRP pool can be a sum of money which varies in line with year-on-year changes in profits.

In either case there will be scope for modifying the effect of large changes in profits, in order to avoid large fluctuations in PRP or to safeguard a minimum level of profit.

Which measure of profits?

The basis for calculating the size of a scheme's PRP pool will be the level of profits on the ordinary activities of the employment unit after tax as defined in the Companies Act 1985. Schemes will, however, be able to provide for a number of adjustments in the production of these profit figures, such as for interest costs. The chosen definition of profit must be used consistently throughout a scheme's life.

How often must PRP be calculated?

PRP to be distributed to employees must be determined and paid at least once a year on the basis of audited profits. But it can be calculated on an interim basis as frequently as desired, and paid, for example, in monthly or weekly pay packets.

How will the tax relief be administered?

There will be, in effect, a "self-assessment" system. The employer will be responsible for:

- Ensuring the scheme complies with the statutory requirements.
- Calculating PRP profits and the amount of PRP payable to each employee.
- Giving the tax relief due to each employee as part of the normal operation of PAYE.

The employer will need to certify the scheme, and the annual operation of it, to Inland Revenue, but otherwise Inland Revenue will not normally be involved in the day-to-day operation of PRP schemes.

How much do auditors have to be involved?

An independent auditor's report must accompany an employer's application for registration of his scheme (to confirm it meets the statutory requirements) and his return at the end of each PRP period (to confirm the scheme and the tax relief have been operated properly).

What happens when employees join or leave a unit during operation of a scheme, or if the employer changes, or if the employment unit is reorganised, etc?

New recruits may be excluded from a scheme for up to three years and employers will be able to decide for themselves how to deal with employees who leave before PRP for a particular year can be calculated and paid. The rules will provide flexibility for employers to make special arrangements to deal with reorganisations, etc.

How would the scheme be introduced?

This would be up to the employer. But it would be possible for PRP to be introduced (or increased in amount) in place of a conventional increase in pay, and this might be coupled with a conversion of some existing pay to PRP.

Can existing schemes qualify?

Yes, if they meet the criteria and are registered.

When can the employer register a scheme and what does it involve?

Schemes cannot be registered until after the Finance Bill is enacted, probably in July or early August. But before that the employer can

- Start working out a scheme that is likely to meet the conditions for tax relief, so that registration can be sought promptly after Royal Assent and before the profit year begins for which PRP is to be paid
- Get on the Inland Revenue's mailing list by writing to Profit Related Pay Office, Inland Revenue, St Mungo's Road, Cumbernauld, Glasgow, G67 1YZ

THE BUDGET: Details

Income tax reductions

New tax tables come into use from May 17

AFTER THE Chancellor sat down the Inland Revenue issued the following statement: in his Budget the Chancellor of the Exchequer proposed a reduction in the basic rate of income tax to 27 per cent and increases in the main personal allowances in line with the statutory indexation requirement. There will be a new, higher level of age allowance for people aged 80 and over and an increase in the blind person's allowance. It is also proposed to increase the thresholds for the 40 per cent and 45 per cent higher rates of tax. This notice explains how the changes will be implemented through PAYE.

Blind Person's Allowance:

It is proposed to increase the allowance for the blind by £180 to £540. Where a husband and wife are both blind two allowances can be claimed. For these couples the allowance therefore goes up by £360 to £1,080.

Age allowance for those aged 80 and over:

A new, higher level of age allowance is proposed for people aged 80 and over. For them the age allowance will be increased by twice the amount due under statutory indexation. The new allowance will therefore be £3,070 for a single person aged 80 or over and £4,845 for a married couple where one of the partners is aged 80 or over. The allowance will be subject to the same income limit as the ordinary age allowance. Taxpayers will qualify for the new allowance for 1987-88 if they are already aged over 80 or if they will reach the age of 80 between April 6 1987 and April 5 1988.

Implementing the changes through PAYE:

i Reduction in basic rate and changes in higher rate bands

New tax tables reflecting the changes will be used by employers on the first pay day after May 17.

ii Changes in Personal Allowances

a For employees whose codes end in L, H, P, or V:

Tax offices will be sending employers instructions to increase codes ending in L, H, P, or V by the appropriate amounts shown in paragraph 1. The new increased codes should take effect on the first pay day after May 17. Revised coding notices are not sent to employees when codes are increased automatically in this way.

b For employees whose codes begin with F or end in T:

These codes will be reviewed individually by the tax office who will notify both the employee and employer of the revised code where a change is due. The revised codes will generally take effect on the first pay day after May 17.

c For taxpayers aged 80 and over; and taxpayers qualifying for a blind person's allowance:

Tax offices will be reviewing their records to identify, so far as possible from the information already available, those taxpayers aged 80 and over who qualify for the new level of age allowance in 1987-88 and taxpayers who receive the blind person's allowance. Where they can identify such cases and changes in allowances are due, the tax office will notify both the taxpayer and his employer (or the person paying the taxpayer's occupational pension). The revised codes will generally take effect on the first pay day after May 17. Any taxpayer who:

(i) expects to qualify for the new age allowance for those aged 80 or over in 1987-88 or for the increase in the blind person's allowance *and*

(ii) has not been notified individually by the end of May of a change to his or her PAYE code to take account of the new allowance levels should write to his or her tax office. Where the new age allowance is claimed the relevant date(s) of birth should be given.

d. For employers:

Tax offices will

— instruct employers to increase, by the appropriate amount, codes ending in L, H, P, and V;

— issue to them, where necessary, revised codes beginning in F and ending in T.

New codes and tax tables will generally be issued by May 5 to be used on the first pay day after May 17.

Employees liable to tax at the higher rates:

There are special adjustments in the PAYE codes of some employees liable to tax at the higher rates. This is because either their wives are working ("excessive basic rate" adjustment) or they have a mortgage ("Interest—higher rate relief" adjustment). These adjustments will be reviewed and revised where necessary by tax offices in the course of examining these taxpayers' 1987-88 tax returns.

Increase in income limit for age allowance:

Where a taxpayer or his wife is over 65 but their total income is above a certain limit, the age allowance is progressively withdrawn until it is reduced to the level of the basic single or married allowance. It is proposed to raise this income limit—below which age allowance is due in full—to £9,800. This means that in the tax year starting April 6 1987 the benefit of the married age allowance will not run out until the taxpayer has income of £11,120. For a single person the corresponding figure of income is £10,603. For taxpayers qualifying for the new level of age allowance for those aged 80 and over, the benefit of the allowance will not run out until the taxpayer has income of £11,375 (married) or £10,768 (single).

Tax offices will amend codes which at present include a reduced amount of age allowance, to take account of the increase in the income limit. Where the size of a taxpayer's income means that no age allowance was given for 1986-87 but age allowance is now due, the tax office will revise the code where necessary in the course of examining the 1987-88 tax return.

Any taxpayer who is not getting age allowance at present but:

a expects to be entitled to age allowance following the proposed increase in the income limit, *and*

b has not been asked by the middle of April to complete a tax return,

should write to his or her tax office giving details of income and date of birth.

Wife's earnings election:

In certain circumstances a married couple may find it to their advantage to elect for the wife's earnings to be taxed separately. For 1987-88 an election will normally only be worthwhile if the couple's combined income before deduction of allowances and reliefs is at least £26,870 including wife's earned income of at least £6,545. (The corresponding figures for 1986-87 are £26,521 and £6,986.) The table shows the position for other levels of income. Inland Revenue leaflet IR13 gives further details of the election.

SINGLE PERSONS AND MARRIED COUPLES—INCOME ALL EARNED

COMPARISON WITH 1986-87 WHERE EARNINGS INCREASE BY 6½ PER CENT BETWEEN 1986-87 AND 1987-88 INCOME TAX AND NATIONAL INSURANCE CONTRIBUTIONS (CONTRACTED IN)

Weekly income in 1986/87 £	Charge for 1986-87: Income tax £	NIC† £	Percentage of total income taken in tax & NIC per cent	Proposed charge for 1987-88: Adjusted* income in 1987/88 £	Income tax £	NIC† £	Percentage of total income taken in tax & NIC per cent	Percentage change in income after tax & NIC per cent
Single persons								
50.00	1.48	2.50	8.0	53.25	1.79	2.66	8.4	6.0
60.00	4.38	4.20	14.3	63.90	4.66	3.19	12.3	9.0
65.00	5.83	4.55	16.0	69.22	6.10	4.84	15.8	6.7
70.00	7.28	4.90	17.4	74.55	7.54	5.21	17.1	6.9
80.00	10.18	5.60	19.7	85.20	10.41	5.96	19.2	7.2
90.00	13.08	6.30	21.5	95.85	13.29	6.70	20.9	7.4
95.00	14.53	8.55	24.3	101.18	14.73	9.10	23.6	7.6
100.00	15.98	9.00	25.0	106.50	16.16	9.58	24.2	7.7
120.00	21.78	10.80	27.2	127.80	21.91	11.50	26.1	8.0
140.00	27.58	12.60	28.7	149.10	27.67	13.41	27.6	8.2
160.00	33.38	14.40	29.9	170.40	33.42	15.33	28.6	8.4
180.00	39.18	16.20	30.8	191.70	39.17	17.25	29.4	8.6
200.00	44.98	18.00	31.5	213.00	44.92	19.17	30.1	8.7
250.00	59.48	22.50	32.8	266.25	59.30	23.96	31.3	8.9
295.00	72.53	25.65	33.3	314.18	72.24	26.55	31.4	9.4
300.00	73.98	25.65	33.2	319.50	73.67	26.55	31.4	9.4
350.00	88.48	25.65	32.6	372.75	88.05	26.55	30.7	9.4
400.00	105.66	25.65	32.8	426.00	107.00	26.55	31.3	8.8
500.00	148.99	25.65	34.9	532.50	154.27	26.55	34.0	8.1
600.00	197.31	25.65	37.2	639.00	207.39	26.55	36.6	7.4
Married couples‡								
75.00	1.37	5.25	8.8	79.88	1.86	5.59	9.3	5.9
80.00	2.82	5.60	10.5	85.20	3.30	5.96	10.9	6.1
90.00	5.72	6.30	13.4	95.85	6.17	6.70	13.4	6.4
95.00	7.17	8.55	16.5	101.18	7.61	9.10	16.5	6.5
100.00	8.62	9.00	17.6	106.50	9.05	9.58	17.5	6.7
120.00	14.42	10.80	21.0	127.80	14.80	11.50	20.6	7.1
140.00	20.22	12.60	23.4	149.10	20.55	13.41	22.8	7.4
160.00	26.02	14.40	25.3	170.40	26.30	15.33	24.4	7.7
180.00	31.82	16.20	26.7	191.70	32.05	17.25	25.7	7.9
200.00	37.62	18.00	27.8	213.00	37.81	19.17	26.8	8.1
250.00	52.12	22.50	29.8	266.25	52.18	23.96	28.6	8.4
295.00	65.17	25.65	30.8	314.18	65.12	26.55	29.2	9.0
300.00	66.62	25.65	30.8	319.50	66.56	26.55	29.1	9.0
350.00	81.12	25.65	30.5	372.75	80.94	26.55	28.8	9.1
400.00	95.62	25.65	30.3	426.00	96.46	26.55	28.9	8.7
500.00	137.56	25.65	32.6	532.50	142.42	26.55	31.7	7.9
600.00	184.62	25.65	35.0	639.00	194.22	26.55	34.5	7.3

†* National Insurance Contributions are at the standard Class 1 rate for employment contracted in to the state additional (earnings related) pension scheme

* The adjusted incomes shown for 1987-88 are for illustration. They have been obtained by increasing the corresponding incomes in 1986-87 by 6½ per cent.

‡ Calculations assume that only the husband has earned income.

Friendly societies' limit revise

The following statement was issued by the Inland Revenue.

The Chancellor proposes in his Budget to change the limit on tax-exempt life or endowment assurance business carried on by friendly societies. For contracts made on or after September 1 1987, the limit will be based on annual premiums of £100 instead of (as now) a gross sum assured of £750.

The change is designed to help older, traditional friendly societies who primarily issue long-term policies to provide retirement or death benefits. It is the equivalent of a very substantial increase in the old limit for such policies.

The revised limit will apply to life or endowment contracts made on or after September 1 1987 by a registered friendly society. Profits from such policies will be exempt from tax so long as the premiums on them do not exceed £100 a year.

Where premiums are payable more often than once a year, 10 per cent of the premium may be disregarded in applying the £100 limit. This will enable friendly societies to issue tax-exempt policies with premiums of, for example, £2 a week or £9 a month.

From September 1 1987, an individual will be able to invest up to £100 a year in tax-exempt, "qualifying" life or endowment assurance with a friendly society. Qualifying policies do not normally attract a tax charge when they mature.

The Finance Bill will also rectify an omission in the 1985 Finance Act so that, as always intended, gains from any non-qualifying policies which may be issued by a friendly society attract a basic rate charge.

Tax-exempt limits on union benefits to rise

THE Inland Revenue issued the following statement after the Chancellor's speech:

The Chancellor proposes in his Budget to increase the tax-exempt limits relating to provident benefits provided by trade unions for their members.

Provident benefits cover a wide range of payments to help members—for example, when they are sick or injured—and also include payments for the children of members who have died. To qualify for the relief the benefits must not exceed certain limits.

The new limits to apply from Budget day will be: lump sums, £3,000; annuities, £625.

The limits were increased in 1980 and 1982 in line with inflation. The 1987 increases reflect inflation since 1982.

PERSONAL ALLOWANCES

	1986-87 £	Proposed increase £	%	1987-88 proposed level £
Single person's allowance and wife's earned income allowance	2,335	90	3.9	2,425
Married man's allowance	3,655	140	3.8	3,795
Additional personal allowance and widow's bereavement allowance	1,320	50	3.8	1,370
Blind person's allowance	360	180	50.0	540
Single age allowance (age 65-79)	2,850	110	3.9	2,960
Married age allowance (age 65-79)	4,505	170	3.8	4,675
Single age allowance (age 80 and over)	2,850	220	7.7	3,070
Married age allowance (age 80 and over)	4,505	340	7.5	4,845
Age allowance income limit	9,400	400	4.3	9,800

RATES AND RATE BANDS

Rate of tax %	1986-87 taxable income £	Proposed increase in starting point £	%	1987-88 proposed taxable income £
27	—	—	—	0-17,900
29	0-17,200	—	—	—
40	17,201-20,200	700	4.1	17,901-20,400
45	20,201-25,400	200	1.0	20,401-25,400
50	25,401-33,300	—	—	25,401-33,300
55	33,301-41,200	—	—	33,301-41,200
60	Over 41,200	—	—	Over 41,200

WIFE'S EARNINGS ELECTION

The table below provides a guide to when an election may be beneficial. If the combined income is the figure in column A, then the wife's earnings must normally be within the figures in column B to make an election worthwhile. The figures are shown before the deduction of reliefs or personal allowances.

1986-87 A Combined income £	1986-87 B Wife's earnings £	1987-88 A Combined income £	1987-88 B Wife's earnings £
26,521	6,986-19,535	26,870	6,545-20,325
30,000	6,048-23,952	30,000	5,851-24,149
35,000	5,478-29,522	35,000	5,404-29,596
40,000	5,309-34,691	40,000	5,299-34,701
45,000	5,128-39,872	45,000	5,117-39,883
at least 48,425	4,890 and above*	at least 48,541	4,916 and above*

* Provided other income (husband's income plus wife's investment income) is also at least £4,890.

* Provided other income (husband's income plus wife's investment income is also at least £4,916.

COSTS (£m)

	1987-88 total costs	1987-88 costs above indexation	1988-89 costs above indexation
Personal allowances	705	10	10
Basic rate limit	60	—	—
Reduction of 2p in basic rate*	1,910	1,910	2,690
Increase in further higher rate thresholds	5	—40	—80
Totals	2,680	1,880	2,620

* Excluding costs of £290 million in 1987-88 and £110 million in 1988-89 for the consequential reduction in the rate of Advance Corporation Tax.

SINGLE PERSONS—INCOME ALL EARNED

Income £	Charge for 1986-87: Income tax £	Percentage of total income taken in tax per cent	Proposed charge for 1987-88: Income tax £	Percentage of total income taken in tax per cent	Reduction in tax after proposed change: Income tax £	As percentage of total income per cent
3,000	193	6.4	155	5.2	38	1.3
4,000	438	12.1	425	10.6	58	1.4
5,000	773	15.5	695	13.9	78	1.6
6,000	1,063	17.7	965	16.1	98	1.6
7,000	1,353	19.3	1,235	17.6	118	1.7
8,000	1,643	20.5	1,505	18.8	138	1.7
9,000	1,933	21.5	1,775	19.7	158	1.8
10,000	2,223	22.2	2,045	20.4	178	1.8
12,000	2,803	23.4	2,585	21.5	218	1.8
14,000	3,383	24.2	3,125	22.3	258	1.8
16,000	3,963	24.8	3,665	22.9	298	1.9
18,000	4,543	25.2	4,205	23.4	338	1.9
20,000	5,174	25.9	4,745	23.7	429	2.1
25,000	7,298	29.2	6,812	27.2	486	1.9
30,000	9,660	32.2	9,170	30.6	490	1.6
40,000	14,878	37.2	14,384	36.0	494	1.2
50,000	20,702	41.4	20,203	40.4	499	1.0
60,000	26,702	44.5	26,203	43.7	499	0.8
70,000	32,702	46.7	32,203	46.0	499	0.7

MARRIED COUPLES—INCOME ALL EARNED

4,000	100	2.5	55	1.4	45	1.1
5,000	390	7.8	325	6.5	65	1.3
6,000	680	11.3	595	9.9	85	1.4
7,000	970	13.9	865	12.4	105	1.5
8,000	1,260	15.8	1,135	14.2	125	1.6
9,000	1,550	17.2	1,405	15.6	145	1.6
10,000	1,840	18.4	1,675	16.8	165	1.6
12,000	2,420	20.2	2,215	18.5	205	1.7
14,000	3,000	21.4	2,755	19.7	245	1.8
16,000	3,580	22.4	3,295	20.6	285	1.8
18,000	4,160	23.1	3,835	21.3	325	1.8
20,000	4,740	23.7	4,375	21.9	365	1.8
25,000	6,703	26.8	6,195	24.8	508	2.0
30,000	9,001	30.0	8,486	28.3	515	1.7
40,000	14,153	35.4	13,631	34.1	522	1.3
50,000	19,910	39.8	19,381	38.8	529	1.1
60,000	25,910	43.2	25,381	42.3	529	0.9
70,000	31,910	45.6	31,381	44.8	529	0.8

ELDERLY SINGLE PERSONS—INCOME ALL EARNED

3,000	44	1.5	11	0.4	33	1.1
4,000	334	8.4	281	7.0	53	1.3
5,000	624	12.5	551	11.0	73	1.5
6,000	914	15.2	821	13.7	93	1.6
7,000	1,204	17.2	1,091	15.6	113	1.6
8,000	1,494	18.7	1,361	17.0	133	1.7
9,000	1,784	19.8	1,631	18.1	153	1.7
10,000	2,190	21.9	1,937	19.4	253	2.5
11,000	2,513	22.8	2,315	21.0	198	1.8
12,000	2,803	23.4	2,585	21.5	218	1.8

ELDERLY MARRIED COUPLES—INCOME ALL EARNED

5,000	144	2.9	88	1.8	56	1.1
6,000	434	7.2	358	6.0	76	1.3
7,000	724	10.3	628	9.0	96	1.4
8,000	1,014	12.7	898	11.2	116	1.4
9,000	1,304	14.5	1,168	13.0	136	1.5
10,000	1,710	17.1	1,474	14.7	236	2.4
11,000	2,130	19.4	1,924	17.5	206	1.9
12,000	2,420	20.2	2,215	18.5	205	1.7

* Calculations assume that only the husband has earned income.

MARRIED COUPLES-HUSBAND AND WIFE BOTH WORKING—INCOME ALL EARNED

COMPARISON OF INCOME AFTER TAX IN 1986-87 AND 1987-88 WHERE EARNINGS INCREASE BY 6½ PER CENT

Weekly income in 1986-87: Husband £	Wife £	Joint £	Charge in 1986-87: Income tax £	Percentage of income taken in tax %	Adjusted weekly income† in 1987-88: Husband £	Wife £	Joint £	Proposed charge in 1987-88: Income tax £	Percentage of income taken in tax %	Percentage change in income after tax %
100.00	50.00	150.00	10.09	6.7	106.50	53.25	159.75	10.84	6.8	6.4
	100.00	200.00	24.59	12.3		106.50	213.00	25.21	11.8	7.1
	150.00	250.00	39.09	15.6		159.75	266.25	39.59	14.9	7.5
	200.00	300.00	53.59	17.9		213.00	319.50	53.97	16.9	7.8
	300.00	400.00	82.59	20.6		319.50	426.00	82.72	19.4	8.2
150.00	50.00	200.00	24.59	12.3	159.75	53.25	213.00	25.21	11.8	7.1
	100.00	250.00	39.09	15.6		106.50	266.25	39.59	14.9	7.5
	150.00	300.00	53.59	17.9		159.75	319.50	53.97	16.9	7.8
	200.00	350.00	68.09	19.5		213.00	372.75	68.35	18.3	8.0
	300.00	450.00	97.54	21.7		319.50	479.25	99.10	20.7	7.9
200.00	50.00	250.00	39.09	15.6	213.00	53.25	266.25	39.59	14.9	7.5
	100.00	300.00	53.59	17.9		106.50	319.50	53.97	16.9	7.8
	150.00	350.00	68.09	19.5		159.75	372.75	68.35	18.3	8.0
	200.00	400.00	82.59	20.6		213.00	426.00	82.72	19.4	8.2
	300.00	500.00	117.54	23.5		319.50	532.50	118.59*	22.3	8.2
300.00	50.00	350.00	68.09	19.5	319.50	53.25	372.75	68.35	18.3	8.0
	100.00	400.00	82.59	20.6		106.50	426.00	82.72	19.4	8.2
	150.00	450.00	97.54	21.7		159.75	479.25	99.10	20.7	7.9
	200.00	500.00	117.54	23.5		213.00	532.50	118.59*	22.3	8.2
	300.00	600.00	147.96*	24.7		319.50	639.00	147.35*	23.1	8.8
400.00	50.00	450.00	97.54	21.7	426.00	53.25	479.25	99.10	20.7	7.9
	100.00	500.00	117.54	23.5		106.50	532.50	121.43	22.8	7.5
	150.00	550.00	136.13*	24.8		159.75	585.75	137.54*	23.5	8.3
	200.00	600.00	150.63*	25.1		213.00	639.00	151.91*	23.8	8.4
	300.00	700.00	179.63*	25.7		319.50	745.50	180.67*	24.2	8.3

† The adjusted incomes shown for 1987-88 are for illustration. They have been obtained by increasing the corresponding incomes in 1986-87 by 6½ per cent.

* Denotes wife's earnings election beneficial.

MARRIED COUPLES WITH TWO CHILDREN—INCOME ALL EARNED

COMPARISON WITH 1986-87 WHERE EARNINGS INCREASE BY 6½ PER CENT BETWEEN 1986-87 AND 1987-88. INCOME TAX, NATIONAL INSURANCE CONTRIBUTIONS AND CHILD BENEFIT

Weekly income £	1986-87: Income tax £	NIC‡ £	Child benefit† £	Net income £	1987-88: Adjusted income¶ £	Income tax £	NIC‡ £	Child benefit £	Net income§ £	Change in net income* %
75.00	1.37	5.25	14.20	82.58	79.88	1.86	5.59	14.50	86.93	5.3
80.00	2.82	5.60	14.20	85.78	85.20	3.30	5.96	14.50	90.44	5.4
90.00	5.72	6.30	14.20	92.18	95.85	6.17	6.70	14.50	97.48	5.7
95.00	7.17	8.55	14.20	93.48	101.18	7.61	9.10	14.50	98.97	5.9
100.00	8.62	9.00	14.20	96.58	106.50	9.05	9.58	14.50	102.37	6.0
120.00	14.42	10.80	14.20	108.98	127.80	14.80	11.50	14.50	116.80	6.4
140.00	20.22	12.60	14.20	121.38	149.10	20.55	13.41	14.50	129.64	6.8
160.00	26.02	14.40	14.20	133.78	170.40	26.30	15.33	14.50	143.27	7.1
180.00	31.82	16.20	14.20	146.18	191.70	32.05	17.25	14.50	156.90	7.3
200.00	37.62	18.00	14.20	158.58	213.00	37.81	19.17	14.50	170.52	7.5
250.00	52.12	22.50	14.20	189.58	266.25	52.18	23.96	14.50	204.61	7.9
295.00	65.17	25.65	14.20	218.38	314.18	65.12	26.55	14.50	237.01	8.5
300.00	66.62	25.65	14.20	221.93	319.50	66.56	26.55	14.50	240.89	8.5
350.00	81.12	25.65	14.20	257.43	372.75	80.94	26.55	14.50	279.76	8.7
400.00	95.62	25.65	14.20	292.93	426.00	96.46	26.55	14.50	317.49	8.4
500.00	137.56	25.65	14.20	350.99	532.50	142.42	26.55	14.50	378.03	7.7
600.00	184.62	25.65	14.20	403.93	639.00	194.22	26.55	14.50	432.73	7.1

* Calculations assume that only husband has earned income.

† Post July 1986.

‡ National Insurance Contributions are at the standard Class I rate for employment contracted in to the state additional (earnings related) pension scheme.

§ Net income is earnings, less tax and national insurance contributions, plus child benefit. It does not include any means tested benefit.

¶ The adjusted incomes shown for 1987-88 are for illustration. The have been obtained by increasing the corresponding incomes in 1986-87 by 6½ per cent.

Effect on Miras

Rise in interest payment likely

The Inland Revenue issued the following statement after the Chancellor's speech.

The Chancellor proposes in his Budget to fix the mortgage interest relief limit for 1987-1988 at £30,000 (the same as for 1986-87).

Effect of the reduction in basic rate:

The Chancellor's proposal to reduce the basic rate of income tax from 29 per cent to 27 per cent for 1987-88 will affect the amount of the payments that borrowers make on loans within the Miras (mortgage interest relief at source) scheme.

Income tax should be deducted from interest payments within Miras in 1987-88 at the new basic rate of 27 per cent. The effect will generally be a small increase in the interest payments to be made. For example, on a home purchase loan of £20,000 at a rate of interest of 12.25 per cent the gross interest payable is £204.16 per month. At the present basic rate of 29 per cent the net monthly interest payable is £144.95. Under the new basic rate of 27 per cent this will be £149.03 per month.

These figures are purely illustrative. The actual amounts by which mortgage payments will alter depend on the borrower's circumstances including the loan balance outstanding in the year and the rate of mortgage interest charged. In due course building societies and other lenders will send details of revised payments to their borrowers. Any queries about the revised amounts payable should be addressed to the lenders concerned.

Effective date for basic rate change

The basic rate change takes effect from the start of the 1987-88 tax year on April 6 1987. Deduction of tax at the rate of 27 per cent applies to Miras interest payable and paid on or after that date. For accounting reasons it has been customary for some building societies and other lenders to regard interest for a year ended on March 31 as being that on which relief for the tax year ending on the following April 5 is calculated. Where this has been the practice and there will be problems in switching to the strict April 5 basis the new basic rate of 27 per cent can be used for calculating payments from April 1 1987. But a borrower has the right to ask for the strict basis so that the present basic rate of 29 per cent applies to the period between April 1 and 5 1987.

Borrowers involved who wish to opt for this strict basis should contact their lenders. If they do exercise this option, or did so last year, it will be applied consistently during the life of the loan should there be further changes, either increases or reductions, in basic rate in future years.

THE BUDGET: Analysis

Racegoers win an on course victory

THE CHANCELLOR'S decision to raise an extra £20m in gaming machine duty so as to recoup the £20m lost by abolishing on-course betting duty may sound like a piffling exercise in moving small sums of money by Customs and Excise.

In reality, it represents a cheering victory for the racing establishment — notably the Jockey Club—in its bid to protect the racecourse industry from the omnivorous march of the off-course, High Street betting battalions.

In racing folklore, the Chancellor's move will even rival yesterday's sweeping victory by See You Then in the Waterford Crystal Champion Hurdle at Cheltenham, for it merits welcome as an intelligent attempt to breathe fresh life into British racing by tinkering with the fine print of the gaming and betting duties.

On the one hand, the tax on on-course (racecourse) betting, which is currently 4 per cent, will be scrapped from March 29, with the tax on off-course betting unchanged at 8 per cent.

To counteract his loss of £20m the Chancellor is raising the gaming machine licence duty from June 1, though not onerously. Net result: zero, for the moves are revenue neutral.

The decision to abolish on-course betting duty should help nudge racecourse attendances higher once more, because those who attend race meetings will enjoy a distinct tax advantage over those who bet off-course.

At present, the backer of a 10-1 winner who invests £10 on-course wins £100 gross, pays £4.40 tax, and shows a net profit of £95.60. From March 29 he will pay zero tax, whereas the betting shop punter who invests £10 on a

Gambling taxes

MICHAEL THOMPSON-NOEL

10-1 winner will pay £8.80 tax (8 per cent of winnings plus stake).

Lord Fairhaven, senior steward of the Jockey Club, said that he was "delighted" with the Chancellor's much-needed boost for the spectator side of racing.

He added that the Chancellor's positive discrimination in favour of racegoers would help the racecourses, strengthen the on-course betting market, and help counteract the advantage given to off-course bookies who are now free to show televised racing in betting shops.

In this regard, a further boost to the previously-shabby world of High Street betting comes in May with the introduction of satellite broadcasts to betting shops. Satellite coverage—including live television and video, teletext and sound — is expected to be available country-wide in 18 months.

Total offtrack betting in 1986 was approximately £3.9bn, yielding £310m in betting duty. Turnover on-course was about £500m, yielding £20m.

The campaign to scrap on-course tax culminated in a Jockey Club-led delegation to Mr Peter Brooke, the Treasury Minister, in London in January. Lord Fairhaven was accompanied by Mr Charles Morrison, chairman of the Parliamentary All-Party Racing Committee, Sir Ian Trethowan, chairman of the Horserace Betting Levy Board, Sir Nevil Macready, chairman of the Horserace Advisory Council, and Mr Christopher Foster, secretary to the Jockey Club.

Both Lord Fairhaven and Sir Ian underlined their concern that live TV horseracing fed daily into betting shops would hit attendances at the smaller mid-week racing fixtures (over half the total).

They were able to quote Customs and Excise statistics for April-October 1986 (the first six months after TV sets were allowed in betting shops) which showed an increase of 7.3 per cent in off-course turnover but a 4.6 per cent fall in on-course betting.

They also argued that the pyschological lure of tax-free betting on-course would be a powerful marketing weapon, and that, anyway, radical improvements in racecourse facilities were needed in the short-term.

A recent Levy Board survey found that if finances were available, racecourses would like to invest £40m in better amenities between now and 1990.

From his lofty vantage point, the Chancellor has seen fit to listen to the Jockey Club's plea for a special deal for racecourses. His fiddling with the figures won't mean anything to those crushing into Cheltenham this week. But it could help ensure a massive turnout at Aintree on April 4 for the Grand National.

A Chancellor's challenge to management

THE GOVERNMENT'S decision to press ahead with proposals linking pay to profits was coupled with a Budget challenge from the Chancellor to management. He urged managers to take advantage of the offered tax relief not only for their own good and that of their employees, but also for their country.

The Chancellor's decision to make such a directly patriotic appeal may be connected with the relatively cool response the Government's consultative green paper on profit-related pay (PRP) drew from many organisations. These included employers' bodies, although the Inland Revenue said yesterday that the numerical majority of responses welcomed the Government's initiative.

Despite the muted reaction of some employers, most will not be surprised that the Government intends to press ahead. Detailed proposals will be set out in the Finance Bill, and employers can begin to register schemes once it is approved, probably in July or early August.

In advance of that the Government is trying to stimulate employer interest by setting up an information mailing facility at the Cumbernauld tax centre in Scotland, from where the scheme will be administered (creating 60-100 new jobs), and by distributing to all PAYE employers a PRP information request form in about seven weeks' time.

Although the Chancellor hoped that take-up among

Profit-related pay

PHILIP BASSETT

employers would grow, PRP specialists yesterday suggested that the projected tax relief cost in 1988-89 of only £50m seemed to indicate acceptance of a low response rate, at least initially.

Mr Saul Estrin, of the London School of Economics, welcomed the new moves, especially if the take-up rate grows. He agreed with Mr Bryan Stevens, director of the Industrial Participation Association, that the measures might be more directly geared to increasing pay flexibility in the economy — one of the Chancellor's two primary objectives for PRP — rather than his other of increasing employee involvement.

The Budget contained one significant change to the version of the proposals, contained in the Government's PRP green paper, a doubling from a quarter to a half the proportion of an employee's PRP which will be free from income tax.

As the table using Treasury estimates, shows in detail, a half of PRP would be eligible for tax relief up to the point where it is 20 per cent of the employee's total pay, or £3,000, whichever is the lower.

Tax relief would be available to PAYE-paying employees working in the private sector whose employers register their PRP schemes with the Revenue before the profit year begins. Those sceptical of the scheme yesterday repeated their criticisms of its exclusion of all public-sector employees.

Detailed guidance notes on the scheme—which the Government claims is as simple as possible—will be issued by the Revenue. Its main qualifying features are:

- Schemes must establish a relationship between the PRP of the specified "employment unit"—a whole business or a sub-unit of it—and the audited profits generated by it.
- New recruits may be excluded from the scheme for up to three years (and part-timers completely), but at least 80 per cent of a unit's other employees must be covered.
- At the start of the scheme, there must be potential for PRP to become 5 per cent of total pay.
- A scheme must last for a minimum of a year.

Under these provisions, employers will have a choice of two ways of linking profits and PRP. Total PRP, or the "PRP pool," can be either a simple proportion of profits, or a sum of money which varies in line with year-on-year changes in profits. The basis for calculating the size of a PRP pool will be the level of profits on the ordinary activities of the employment unit after taxation, as defined in the 1985 Companies Act.

The Government is trying to provide as much flexibility in the scheme as possible. It would be for the employer to decide, for instance, if PRP were to be introduced, or increased, in place of a conventional pay increase. Alternatively it might be coupled with a conversion of some existing pay to PRP.

PRP, however, must be determined and paid at least once a year on the basis of audited profits. But the Revenue says it can be calculated on an interim basis as frequently as desired and paid, for example, in monthly or even weekly pay packets along with the conventional pay.

Analysts yesterday saw the primary change as an attempt to increase the job-creation potential of the scheme. However, they pointed out that the scheme is still a far cry from the full-blooded proposals originally set out by the Chancellor in April last year to the National Economic Development Council. Even so, the patriotic challenge is there. How many employers accept it by establishing schemes will be the real test of the idea.

PROFIT-RELATED PAY

Annual pay (£)	Proportion of pay that is PRP (%)	Value of tax relief (£)* per year	per week
5,000	5	33.75	0.65
	10	67.50	1.30
	20	135.00	2.60
10,000	5	67.50	1.30
	10	135.00	2.60
	20	270.00	5.19
15,000	5	101.25	1.95
	10	202.50	3.89
	20	405.00	7.79
20,000	5	135.00	2.60
	10	270.00	5.19
	20	405.00	7.79

* (i) 1987-88 tax rates and allowances
(ii) No other income allowances or tax relief

Three cheers for an unexpected freeze

THE FIRST tax standstill on cigarettes since 1978 has been greeted by the industry as a welcome—if belated—sign that the Government has recognised the adverse impact of its policies on jobs.

Alcoholic drinks makers also suggested that their commercial arguments, rather than electioneering, were the main reason for keeping drinks duty unchanged for the second year running.

"Whoopee . . . We did it again," cheered Mr Nick Gent, chairman of the Wine and Spirits Association.

"The Chancellor was destroying the industry and handing it to the West Germans," said Mr Clive Turner of the industry-funded Tobacco Advisory Council.

The freeze would help combat the influx of cheap European imports, which had captured about 10 per cent of the UK cigarette market in only three years.

"We are obviously very pleased that the arguments we and the retailers have put up have had an effect," Mr Turner added. "It gives us a period of desperately-needed stability after all these years."

Officials at Philip Morris, which last December lopped 5p a pack off its Marlboro brands, said the industry would benefit because the price of premium brands would not be pushed beyond the pocket of most smokers.

As a result, they would no longer be tempted to "trade down" and buy imported own-label brands. "Now we can consolidate and turn our attention to counter - attacking cheap imports."

According to Imperial Tobacco, the industry has lost almost 20,000 jobs since 1974. Seven factories have closed since 1983.

"However, manufacturers may still impose price increases. The Marlboro cuts, which were closely followed by selective reductions in several Imperial Tobacco brands, disturbed the long-standing pattern of twice-yearly price rises.

Tobacco companies have for several years increased prices in the autumn and winter. Last

Tobacco and alcohol

CHRISTOPHER PARKES

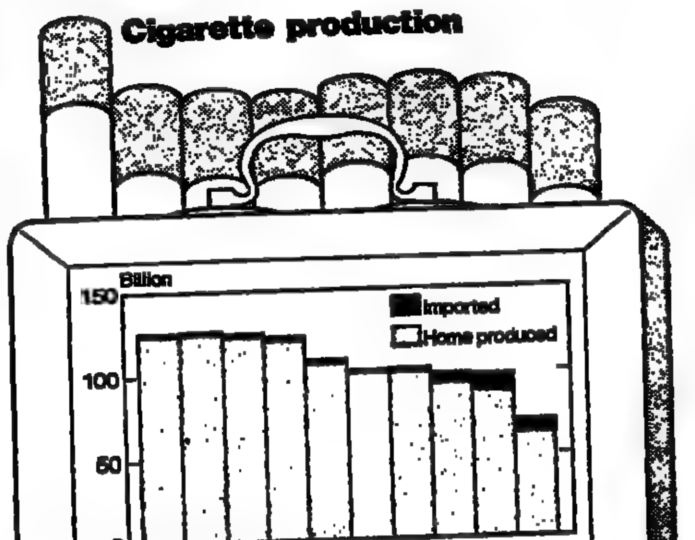
December's reductions appear to have led to the postponement or cancellation of the expected all-round January increase.

A typical premium brand of cigarettes costs about £1.51p, broken down into 38½p for manufacturers and distributor's costs and profits and 112½p duty and VAT.

One leading cigarette maker said the standstill allowed a little headroom between the current price of a pack of 20 and the point at which consumer resistance would set in.

"However, we are all looking at one another very carefully. It remains to be seen if increases will follow."

The City, where analysts had been forecasting increases of anything between 3p—in line with inflation—and 10p a pack, was taken aback by the freeze.



Even so, while opinions supported the industry view that the Budget offered a chance to slow the advance of West German imports, there was agreement that British manufacturers would have to take action to regain market share.

The options were either to market more cheap brands, or accept the inevitable and agree to manufacture own-label cigarettes for retail chains and cash-and-carry wholesalers.

The freeze's commercial benefits on the drinks business were difficult to define, said Mr Tony Scouller, marketing director at International Distillers and Vintners, a Grand Metropolitan subsidiary.

Fashion, weather and other influences also affected drinking habits. However, he firmly believed a measure of price stability helped sales of quality branded products.

"It also helps us to improve our planning and forecasting," he added.

The Scotch Whisky Association, on the other hand, seemed disappointed. "Sales are flat and this wil do little to stimulate them. The situation really required imaginative action and this was not forthcoming," it said.

Inland revenue closes the net

AN 18-month wrangle between the Inland Revenue and Lloyd's of London reached a climax with the change in tax treatment of the so-called "reinsurance to close" contracts made by the 400 Lloyd's insurance syndicates.

The change will make the treatment of these contracts equivalent to that of the outstanding claims reserves, made by insurance companies to provide against future losses. This could significantly raise the tax bill of many of Lloyd's 30,000 members.

A common view at Lloyd's last night was that the impact would depend on the Revenue's readiness to use sensible insurance principles in handling the issue. However, up to 100 Lloyd's syndicates are said to be in dispute with it.

Reinsurance-to-close is the most significant item in the preparation of syndicate

Lloyd's

NICK BUNKER

accounts. In 1983 it accounted for £2.9bn of the market's total premium income of £6.8bn.

Lloyd's underwriters take three years to assess the final profit or loss made by a syndicate in a given year. So syndicates are now closing their accounts for the underwriting year beginning January 1 1984, before allocating profits or losses to the syndicate's underwriting members ("names").

However, underwriters have to provide for further claims on the insurance policies written in the year in question. They do this by paying over a sum—known as the reinsurance-to-close premium—into the next accounting year of the syndicate, whose future members bear any new losses. The complex calculation includes an allowance for claims "incurred but not reported."

Tax officials have apparently argued that some Lloyd's syndicates have overestimated the reinsurance-to-close premium. This would unreasonably cut the profits distributed to names, but also reduce their tax charge, and unduly benefit future generations of names on the same syndicate.

The Revenue wants legislation to apply insurance company taxation principles (starting with the 1985 underwriting year). That is, reinsurance to close will be treated as a provision, tax-deductible only "if based on adequate evidence or computed by reference to acceptable statistical methods."

A lot will hinge on the definition of "acceptable statistical methods," at a time of highly-technical argument among insurers and actuaries about the proper bases of loss reserving.

The syndicates' reply is, first, that underwriters already use the best available criteria in their calculations; and, second, that reinsurance to close is not a reserve, but a contract between the members of syndicates for successive years (which also has the effect of terminating the tax liability of names when the year's account is closed).

The worst case scenario is that the Inland Revenue could, say, challenge a £100m reinsurance-to-close premium paid over by a Lloyd's syndicate. If tax officials said the figure should actually be £75m, the names could be taxed on the £25m difference — even if the syndicate had declared a loss.

Tax officials turned to close study of the matter in late 1985, after securing a £42.5m tax settlement from Lloyd's relating to undisclosed tax liabilities. This settlement followed an investigation launched after the 1982 PCW and Howden Lloyd's scandals.

A steady easing of the burden

One of Sir Geoffrey Howe's first acts as Chancellor of the Exchequer in 1979 was to ask Lord Cockfield to review Capital Transfer Tax.

The review was covert rather than open. No report was published. But each Budget since then has seen death and gift taxes progressively reduced or dismantled, first under Sir Geoffrey and perhaps more so under Mr Lawson.

It might have been expected that the pocess had finished in 1986, when gift tax was abolished between individuals except for gifts made within seven years of death—virtually restoring the old estate duty, though calling it an inheritance tax. But the process has been continued in 1987, though less dramatically.

Primarily, the easement takes the form of raising the threshold by much more than the inflation rate. An increase in line with the rise in the retail price index would have raised the threshold from £71,000 to £74,000. Instead the Chancellor proposes a 27 per cent increase in the threshold to £90,000.

At the same time he has reduced the number of rate bands from seven to four. Above the threshold the rates still rise from 30 per cent to 60 per cent but because the bands are wider much less tax will be paid.

The Chancellor gave an interesting if unconvincing reason for the big increase; to help those with more moderate fortunes whose main asset was a house. The argument would have had some force if there was a danger of inheritance tax compelling a widow or widower to leave the family home. It ceases to be a powerful moral argument when transfers, as with capital transfer/inheritance tax, are tax-free between spouses.

On settled property held in

Inheritance tax

CEDRIC SANDFORD

trust he has also eased the tax burden. Under the inheritance tax rules introduced last year, lifetime gifts between individuals outside the seven-year period were to be tax free, lifetime gifts into and out of trusts carried tax at half the rate applicable at death save in the case of trusts for children and the disabled. This year he proposes to apply the same rules to trusts as to lifetime gifts where there is a clear individual beneficiary. The proposal would not apply to discretionary trusts.

Mr Lawson has continued the policy of his predecessor in granting reliefs to industry. Hitherto there has been a 30 per cent relief on the transfer of minority shareholdings in unquoted companies. He now proposes to increase this to 50 per cent where the minority holding is between 25 per cent and 50 per cent before the transfer.

Previously the 50 per cent relief was obtainable only for majority holdings. However, the relief for minority shareholdings will not be available for shares in companies dealt in on the Unlisted Securities Market. Recognising the development of this market, the Chancellor intends to treat such shares on the same basis as companies with a full listing on the Stock Exchange.

The increased thresholds mean that a millionaire couple can, irrespective of the way the property is divided between them, pass, completely free of tax, £180,000 every seven years to their children. This is apart from gifts out of normal income, marriage gifts or gifts which take advantage of the agricultural and business reliefs.

The Chancellor made some play in his speech on the rise in revenue from capital transfer/inheritance tax. He expects it to raise £1bn or a little more in 1986-87. This represents a reversal of recent trends when the yield of CTT has been falling as a proportion of tax revenue and of G.D.P. On the face of it this outcome may seem surprising in view of the successive easements of the tax. Two factors are largely responsible. When CTT was introduced in 1974-75, for the first time transfers between husband and wife became tax free. It was to be expected that this would lead to a lag in receipts — a fall, then a rise.

Further, the boom on the Stock Exchange and in housing must have been having their effect. But, even this "high yield" is still only going to contribute about 1 per cent to central Government tax revenue, less than estate duty contributed before its abolition in 1974; and estate duty was widely dubbed "the voluntary tax."

PSBR takes priority over tax cuts

ONE OF the most notable features of yesterday's Budget was the Government's decision to devote the larger share of its scope for fiscal adjustment to lowering its projection for public borrowing rather than cutting taxes.

The decision to cut the PSBR to only £4bn from the £7bn originally planned was largely unexpected. Most independent forecasts had expected a £5bn to £6bn PSBR target combined with heftier cuts in income tax.

The cut in the PSBR target, combined with the Chancellor's estimate of a £4bn PSBR in the current fiscal year against a £7bn projection, represents a significant tightening of fiscal policy.

Borrowing both this year and next, at only 1 per cent

Money supply

JANET BUSH

of Gross Domestic Product, will be substantially lower than the 1½ per cent implied by the £7bn PSBR targets incorporated into the latest version of the Medium Term Financial Strategy.

The immediate reaction to the Chancellor's projection for the borrowing requirement next year was that his arithmetic looked credible and could even err on the cautious side.

On monetary policy, the Chancellor finally confirmed that he had dropped his target range for broad money supply, Sterling M3. This had been widely expected after a speech in Loughborough by the Governor of the Bank of England last autumn.

He had explained in detail the official view on why the link between broad money growth and inflation had broken down.

The Chancellor's 2 per cent to 6 per cent target range for narrow money M0 next year was unchanged from the range this year, both of which were pencilled into the MTFS.

Good moves as far as they go

"A MIXED BAG, helpful but nothing too exciting," was the reaction from a number of small business lobby groups and professional advisers to the Value Added Tax and Business Expansion Scheme changes.

But while criticising the Chancellor for ignoring many of their suggestions for budget changes aimed specifically at small businesses, several of the lobby bodies welcomed his general measures aimed at reducing personal and corporation taxes and at bringing down interest rates.

Mr David Trippier, Small Firms Minister, declared himself "highly delighted" with the Budget measures. They were in line with his own belief that it was better to improve the position of small businesses through measures which would benefit all, rather than special schemes.

"My heaviest postbag was on VAT," he noted, and singled out as an important step the move to make small firms liable for VAT only when they had themselves been paid for goods or services.

Mr Trippier welcomed the changes aimed at reducing the bunching of BES investments towards the end of the tax year and said the fact that no other changes had been made would give the BES a period of stability.

The Association of Independent Businesses was most critical, describing it as a Budget for the economist rather than for the businessman. The association attacked

Business expansion scheme

CHARLES BATCHELOR

the Chancellor's failure to reinstate a limited form of stock relief abolished in the 1984 Budget.

It was happier, however, with the BES changes, noting they would give investors more time to assess companies.

Mr Charles Fry, chairman of Johnson Fry, a leading promoter of BES schemes, was less impressed. By limiting the amount of income the investor could carry back to the previous tax year to a maximum of £5,000, investors who put in the maximum £40,000 into a BES issue would still be uncertain about the tax position of £35,000 of his investment.

"A Budget to help cash flow," was the reaction of the Small Business Bureau, the Conservative Party's own lobby group. The reduction in the rate of corporation tax to 27 per cent in line with income tax and likely cuts in interest rates were welcomed. Mr Michael Grylls, bureau chairman, said the decision to raise the starting point for inheritance tax would make it easier to pass on a company to the next generation.

The decision to let businesses with sales of up to £250,000 complete only one VAT form a year instead of four was also welcomed.

The National Federation of Self-Employed and Small Businesses was relieved at the decision not to deregister compulsorily firms with turnover below £21,300 for VAT purposes. This step could have meant deregistered firms losing business from registered firms since the latter could not have claimed back their allowances.

The CBI expressed disappointment that the VAT changes would apply only to firms with turnover of up to £250,000. A higher limit would have helped the medium-sized businesses, it said.

A helping hand to cross the skills barrier

TAX concessions on retraining will help workers leaving a company through a redundancy programme to gain skills enhancing their future employment chances.

The measure is aimed at lowering the risk that workers will be unemployed for long periods after being made redun-

Training

CHARLES LEADBEATER

dant. Ministers were concerned that a period of unemployment could leave workers rusty in terms of skill and demotivated in looking for a job.

After the tax changes, an employee will no longer be taxed on the expenses of any training course paid for or reimbursed by an employer and aimed at providing him with skills for a new job or setting up a business.

The company will be able to offset the cost of such courses against taxable profits. Spending on training for those who remain within a company's employment is already an expense allowable against tax.

The Treasury estimates the cost of the relief will be negligible.

A welcome for the changes came from the CBI, which had urged the Chancellor to extend the concession. The Engineering Industry Training Board said the measure would improve training, but only marginally.

The Manpower Services Commission warmly welcomed the move, saying it would remove obstacles to retraining.

An executive perk still worth having

THE CHANCELLOR'S decision to raise by 10 per cent tax paid by 2m company-car users was described as unnecessary and harsh by the Motor Agents Association.

The Society of Motor Manufacturers and Traders said the rise was excessive and that the

Company cars

KENNETH GOODING

Chancellor should have cut tax on company-provided petrol or diesel fuel.

The price of petrol is well below the 185p-a-gallon average of January last year. The society said the Chancellor, by holding the tax at its current level, was making a hidden increase.

However, nobody should have been surprised by the Chancellor's action. The Government, when it first began attacking all kinds of corporate perquisites, said it intended to keep raising tax on company cars at a rate much higher than the inflation rate.

The Government has stuck to its guns. Once the rate comes into effect in 1988-89 the tax will have been raised by 68 per cent in four years.

The society says this rise is already causing company car users to trade down and is creating distortions in the company car sector which accounts for about half the UK's 1.8m new car sales.

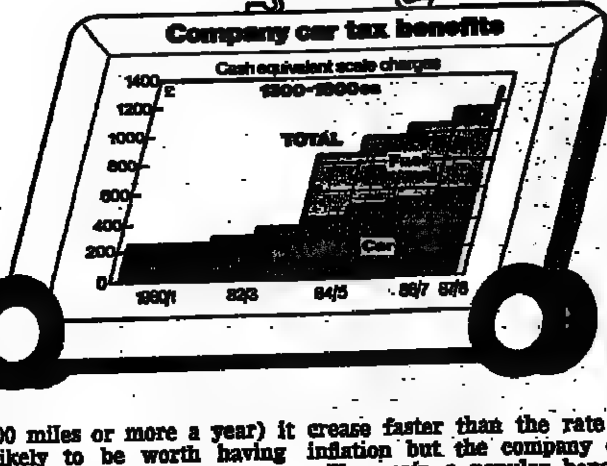
It says higher taxation might accelerate the process and could lead to a switch from company cars to private cars with mileage allowances. The latter would almost certainly cause new car sales to fall. It would probably lead to a rise in imports because individuals do not often follow the buy-British policies advocated by many UK companies.

However, most independent observers still think the company car is a perk worth having.

The Inland Revenue says the tax paid by the average company motorist driving a 1600cc car which is less than four years old will rise only to about £4 a week for the car, compared with £3.63 in 1987-88. Company-car users will pay a further £3.11 a week if the company also provides fuel.

The recently-published Monks Guide to Company Car Policy says: "The overwhelming evidence is that, for most individuals who do a reasonably substantial private mileage (say 5,000 miles or more a year) it is likely to be worth having a company car.

"The scale charges have increased and are likely to increase faster than the rate of inflation but the company car will remain a popular benefit, unless taxation policy is radically changed."



Basic rate of 25% in reach

AS IN 1986 the Chancellor has preferred to cut the basic rate of income tax, this time by 2p to 27 per cent, rather than to increase the main personal allowances by more than the inflation rate.

Only the very old — 80 years and more — through a "super-aged" allowance, and the blind, have benefited from a higher-than-inflation increase in allowances.

On the other hand the Chancellor's long-term aim, a basic rate of 25 per cent, is now well within reach, provided the electorate gives him or a Conservative Party successor the opportunity.

Overall the package is less favourable to higher-rate taxpayers than had been expected.

Income tax

MALCOLM GAMMIE AND FRANCES CORRIE

Last year the 1p cut in the basic rate was not reflected in the higher rates. The same is true this year. Those whose income goes over the basic rate threshold — fully-indexed to £17,900 — will face a jump of 13 per cent to the first higher rate of 40 per cent.

In addition, however, the threshold for the 45 per cent band is increased by only £200, rather than a fully-indexed £900, while those for the 50, 55 and 60 per cent rates are not altered, even to allow for inflation.

Last year the thresholds were increased but not by the full indexation amount, so that for two years in succession there has been a real cut in the higher-rate thresholds.

Overall since 1979 it is the higher income groups who have benefited most from changes in income tax, and the effect of the past two years has been to weight the benefit of the basic rate cut in favour of those at the lower income levels.

A single person with income of £20,000 will see a 2.1 per cent cut in tax as a proportion of total income, whereas a single person on £70,000 will only obtain a 0.7 per cent reduction.

No changes in national insurance rules were announced.

Middle managers at that level of income and with a company car will also see a 10 per cent rise in the scale benefit charge. However, by reducing the basic rate rather than over-indexing allowances, the maximum income-tax relief is again concentrated on those at the upper end of the basic-rate band, and on those at the start of the first higher rate band, and thus offsets any additional national insurance contributions and scale charge suffered at that level.

The charts illustrate the relative change in disposable income at five income levels since 1983 and offer a comparison between the family with two children but only one earner and a similar family where both parents work.

It is assumed that pay over the period has risen in line with increases in average earnings. Accordingly the chart reflects the fact that average earnings—and, accordingly, disposable income—have increased faster than inflation.

Disposable income has been calculated after income tax and national insurance contributions have been deducted and child benefit added. The resulting amount has been adjusted for inflation, to demonstrate the real spending power of the net income available to the family in each year.

A cut in the basic rate has several knock-on effects in the tax system. Payments made under deduction of basic rate tax, such as rent paid abroad or interest payments made by companies, will now be subject to a lower level of deduction.

Those covenants which are expressed in terms of gross payment—rather than a sum after reduction of tax—must from April 6 adjust the amount of tax they deduct from the payment.

Discretionary and accumulation trusts pay tax on their income at the basic rate and an additional rate, being the difference between the basic rate and the second higher rate. Rs this rate remains at 45 per cent the 2 per cent cut in basic rate is mirrored by a 2p increase in the additional rate. However, credit for the 45 per cent tax charged is given when income is distributed from the trust.

Mortgage interest payments under the Miras scheme will rise to reflect that tax relief is only being given at 27 per cent. However, the effect of this change may be masked by a fall in interest rates after the Budget. The Chancellor has not raised the £30,000 threshhold for Miras relief, nor has he restricted the relief to the basic rate only.

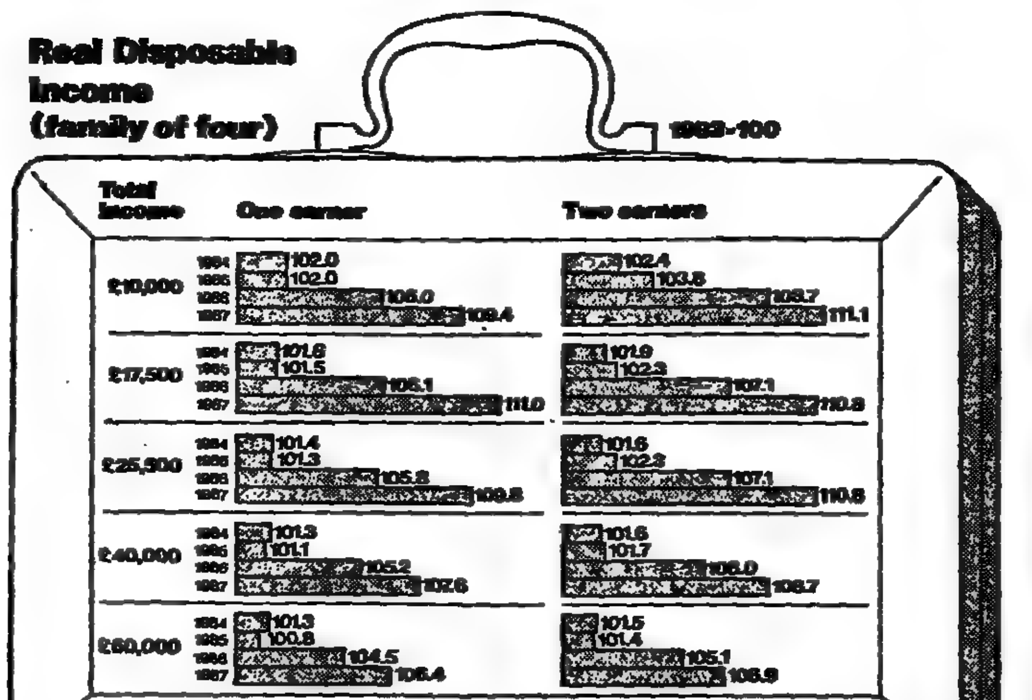
The rate of deduction on payments to subcontractors in the construction industry who do not hold a valid certificate will also fall from 29 per cent to 27 per cent. This change will not take effect until this November 2.

However, the advance corporation tax payable by a company on its dividends is automatically reduced from 29/71sts to 27/73rds, to provide a shareholder with a tax credit reflecting his reduced basic rate liability.

For a company paying the full corporation tax rate after this March an incidental effect of this is to increase from 6 per cent to 8 per cent the amount of tax ultimately borne by the company which it cannot pass to its shareholders.

However, a company with profits of £100,000 or less can still pass to its shareholders a credit for the full amount of corporation tax it pays, because the corporation tax rate on such companies is cut to 27 per cent and this rate now extends to the chargeable gains of such companies.

Overall the effective tax rate borne by a shareholder on a company's chargeable gains which are distributed is cut because the tax payable on such gains can now be imputed to the shareholder through the tax credit.



These charts illustrate the comparative increase in spending power of families with selected levels of income. The second income is assumed to be £5,000 throughout and, at each level of income, child benefit for two children has been included. The levels of gross earnings shown are those for 1987-88. Disposable income in earlier years has been calculated by adjusting back these earnings in line with changes in average earnings and deducting income tax and national insurance contributions. Spendable income has then been restated at its March 1987 value, taking account of changes in the Retail Price Index. No allowance has been made for tax relief on mortgage interest or pension contributions

Tidier approach to tax on gains

THE BUDGET simplifies the structure of corporate taxation in one significant respect. This relates to the way in which companies are taxed on their capital gains.

The pre-Budget position was that companies were charged at the capital gains tax rate plicable to individuals, currently 30 per cent. During the lengthy period when corporation tax hovered around the 50 per cent mark, this meant that a company's capital gains were much more lightly taxed than its profits.

However, as the Chancellor pointed out in his speech, the steep decline in corporation tax has whittled away this differential. Hence, the distinction between profits and capital gains has lost most of its financial meaning

Under the new system, companies' capital gains are to be treated in pricisely the same way as income and taxed at the same rate. For companies paying the standard 35 per cent corporation tax charge, this will mean an effective increase of 5 percentage points. On the other hand, smaller companies, which will now pay only 27 per cent (reduced in line with the standard rate) can look forward to a saving of 3 percentage points on their future capital gains.

The integration of corporate capital gains with profits will produce a beneficial side-effect for both large and small companies. When a company pays a dividend to its shareholders it has to account to the Inland Revenue for advance corporation tax (ACT). ACT paid can subsequently be offset against its liability to mainstream corporation tax, hence reducing its overall tax bill.

Corporate taxes

DAVID COHEN

However, under the old system, ACT could not be offset against a company's liability to pay tax on its capital gains. Hence, if a company's profits were insufficient to absorb its ACT, the excess ACT was wasted.

From now on, surplus ACT can be used to extinguish a tax liability on capital gains.

If the changes affecting capital gains are broadly neutral, the other corporate tax changes are clearly designed to increase Government revenues by curbing popular avoidance techniques.

The use of pre-1965 companies to defer tax liabilities hit the headlines last year when it was exploited by Storehouse, the company which resulted from the British Home Stores and Habitat Mothercare merger.

A post-1965 group of companies would purchase a pre-1965 company and channel all the profits of the group into the older company. This technique was capable of deferring the due date for payment of tax by as much as 12 months.

Now, after a transitional period all companies will have to pay corporation tax for each financial year no later than nine months after the year-end.

Another category of companies which has had a tax-planning avenue closed are those which are partially exempt from value added tax.

The normal consequence of being partially exempt is that a company can only reclaim a proportion of the VAT which it pays.

Companies sought to avoid this by putting the expenditure through a subsidiary which was fully chargeable to VAT. By skilful manipulation of the VAT rules on the grouping of companies, it was then possible for the full amount of the VAT to be recovered.

On the purely administrative level, the Finance Bill will create the basis for a new 'pay and file" procedure for companies.

This will require them to pay corporation tax by a certain date—whether or not they have received an assessment—and to file tax accounts within 12 months of the year-end.

An unpleasant surprise for the bankers

BANKS and financial institutions are among those hardest hit by a number of measures which are desihgned to close tax loopholes and save several hundred million pounds a year.

Mr Lawson described them as "unintended or unjustified tax breaks" which cause overall tax rates to be higher than they need be.

The most controversial measure is a proposed change in the tax treatment of foreign loans by UK banks which Mr Lawson says will end the current tax subsidy to overseas lending, but which the banks say could inhibit this activity.

At present banks can claim a general tax credit for any withholding made by foreign governments on interest they receive on foreign loans. In future, banks will only be able to offset this credit against tax on the profit of the relevant loan.

Mr Lawson claimed that the change would bring the UK into line with other countries. It will be applied in stages, yielding some £20m in 1988-89, rising to £60m in 1990-91.

Bankers said last night that the change will greatly reduce the value of tax relief on their foreign lending, and will force them to reassess the profitability of this activity.

The problem, essentially, is that relief will apply only to profit on a loan. This is likely to be of the order of 1 per cent after funding costs, while a typical rate of withholding is 10 per cent, most of which will now go unrelieved where previously the credit could be applied to other profits.

The precise impact of this change will depend on technicalities which will now be thrashed out between the banks and the Revenue, including the way that profit on a loan is to be calculated. Mr Lawson's decision to introduce the measure marks a victory for the Revenue which had to retreat from a previous attempt in 1982 in the face of great hostility from banks.

Although foreign lending has declined in importance for banks because of the growth of other types of financing, the impact of the measure on their readiness to lend to Third World countries could become an issue.

Banks and financial institutions will also be affected by Mr Lawson's measures to reduce the amount of input tax which businesses which are partially exempt from VAT can deduct (see separate article). The Chancellor clearly had some encouragement to deal out more severe tax treatment to banks following the record profits they have just reported for 1986.

Mr Lawson also confirmed the Government's intention to plug the so-called "Delaware Link," one of the more notorious corporate tax loopholes.

Sophisticated multinational companies establishing dual residence in the UK and the US were able to claim tax relief in both countries for the same financing costs. This resulted in lost tax revenues which were estimated at £200m to £300m a year.

Mr Norman Lamont, the Financial Secretary to the Treasury, announced in December that action on the link would be taken. Yesterday's proposals are based on consultations which have taken place since then.

Business tax avoidance

DAVID LASCELLES

Although banks and businesses have lobbied hard against reform—the banks argued, for example, that it encouraged US companies to borrow money in London—the abolition of the link was never seriously in doubt, particularly now that the US has taken steps to plug the hole at its end.

Genuine trading companies will be exempted from the proposed change in the tax law, which will take effect from April 1 and is expected to yield £125m in 1988-89, according to the Chancellor.

Mr Lawson also introduced a number of smaller measures to plug gaps in the tax structure. These include legislation to ensure that a UK resident partner of a foreign partnership pays all the tax he should on his share of the partnership's profits.

The recommendations of the Keith Committee on the enforcement of the Revenue's powers are also to be adopted. These will tighten up collection of PAYE and improve the operation of the deduction scheme for sub-contractors in the construction industry.

These changes will take effect from April next year and yield some £45m in 1988-89.

Options to swap at takeover time

ALTHOUGH not mentioned in his speech, Mr Lawson yesterday announced one important change affecting employee share schemes. This will make it possible for employees of a company which is taken over to exchange their share options for options in the company acquiring them.

There is at present no statutory provision allowing them to do this. The change affects two types of Inland Revenue-approved option schemes. The first is the saving-related option scheme introduced under the 1980 Finance Act. These options have to be exercised either five or seven years after they are granted, depending on what the employee elects at the time the option is granted.

The second is the scheme introduced by the 1984 Finance Act. These usually have to be exercised between three and 10 years after they are granted and no less then three years after the exercise of a previous option under that scheme.

Employee share schemes

MICHAEL SKAPINKER

Until now, employees holding options in a company subject to a takeover have either had to exercise the options at the time of the takeover, thereby risking income tax liability, or, in certain circumstances, they have simply lost the options.

The Chancellor has proposed that holders of options in a target company would be able to obtain options in the acquiring company on condition that the value of the options being surrendered equal the value of those being acquired. To qualify, the replacement options will also have to continue to be governed by the rules of the target company's existing scheme.

The move was welcomed by Mr Laurie Brennan, chief executive of New Bridge Street Consultants, which advises companies on employee share schemes. The changes would bring "immense relief to a great number of people," he said. "We pointed out some years ago that the last thing a bidder wants is to turn off its new employees."

The Chancellor also announced that legislation governing older schemes which have not been approved by the Inland Revenue would be reviewed. The review was welcomed by remuneration consultants, who said legislation to prevent income tax avoidance under earlier schemes had become impossibly complicated.

Half measure better than nothing

THE OIL industry has obtained about half of what it wanted from the Budget in terms of measures designed to boost flagging activity in the North Sea.

Oil companies welcomed the move to make 10 per cent of new development costs offsetable against petroleum revenue tax from existing fields, although they doubted whether its effect on the pace of offshore development would be either quick or dramatic.

The industry was hoping for an allowance of at least 20 per cent and had asked for a series of other measures including lowering the rate of this tax.

Mr Roland Shaw, chairman of Premier Consolidated Oilfields, said yesterday: "We had asked for 20 per cent but I had expected zero, so this really is not too bad."

However, Dr Dickson Mabon, chairman of British Indigenous Technology Group, said the measure would not be enough to push forward the four to five new developments needed to preserve the distressed offshore supplies industry.

He said: "The Chancellor has got the diagnosis right but has got the number wrong. We'll have to lobby now to seek to get it changed to 20 per cent in the Finance Bill."

Oil

LUCY KELLAWAY

The 10 per cent allowance, which applies to offshore oilfields but not onshore developments or those in the Southern Gas Basin, will cut new oilfield development costs by about 6 per cent for companies paying both petroleum revenue tax and corporation tax.

The Government, in deciding the size of the allowance, was anxious not to distort the system so as to encourage projects that were uneconomic before tax to proceed. It believes allowances on the scale sought by the industry would risk doing this.

According to Wood Mackenzie, the stockbroker, the allowance is likely to raise the return on most projects by about 2 per cent and to help accelerate the development of some new oilfields. It said these might include Arbroath, Bruce, Ness, Don, Ettrick, Kittiwake, Miller, Osprey, T-Block and Emerald.

The second measure announced — allowing spending on research that does not relate to any particular oilfield to be offset against petroleum revenue tax — was yesterday thought to be of limited significance: it will have no effect for three years and sums involved are small.

However, it marks a personal victory for Mr Alick Buchanan-Smith, the Energy Minister, who has repeatedly emphasised the importance of North Sea research.

● Oil companies yesterday welcomed the 5p cut in duty on unleaded petrol as a step in the right direction, although some doubted whether it would be enough to boost sales.

The change will lower the price of unleaded petrol to about 175p a gallon, putting it on a par with the price of four-star petrol. However, the industry was disappointed that the Chancellor had not given the fuel a stronger boost by cutting its price by about 8p, to make it comparable with the price of two-star petrol with which it competes.

Texaco said yesterday that in spite of the cut's modest scale it planned to expand its network of stations offering lead-free petrol. It said it was cautiously optimistic that the move would result in higher demand.

Unleaded petrol has not been a success since it was introduced to the UK more than a year ago. It commands less than a tenth of 1 per cent of the UK market and less than 1 per cent of sales in the limited number of stations in which it is sold.

Extension of VAT relief 'helpful but disappointing'

CHARITIES described the extension of VAT relief on some of their activities as "helpful but disappointing overall."

Charities had launched a campaign to persuade the Chancellor to extend tax concessions for charitable work.

Charities

LISA WOOD

In the event, Mr Lawson extended VAT relief to four new areas:

● The installation or adaptation of any bathroom, washroom, or lavatory for the handicapped in charity residential homes.

● Drugs and chemicals directly used by a charity in medical research.

● Certain vehicles for use by hospices for transporting the terminally ill.

● Specialised location and identification equipment for use by charitable rescue and first-aid services.

The Charities VAT and Tax Reform Group, an umbrella organisation for more than 200 charities, which had asked Mr Lawson to build on his commitment last year to support and develop the work of the charitable sector, said the measures announced yesterday would be helpful.

It said the Treasury had estimated the savings at up to £5m but it calculated that the sum would be more like £1m to £2m. The group expressed disappointment, however, that the Chancellor had not exempted VAT on building alterations.

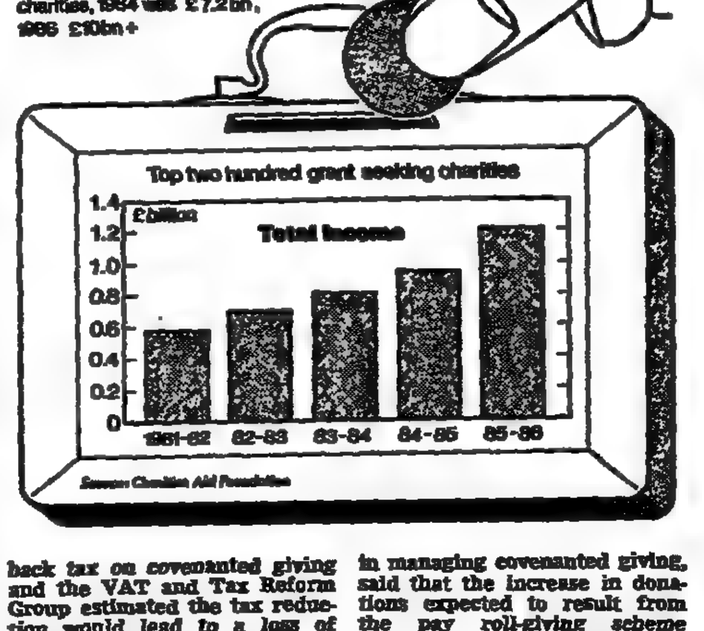
It said, for example, that the Jewish Blind Society was spending £750,000 on converting a home in north London on which the VAT would be £75,000. The exemption on bathroom facilities would reduce this sum by only a small amount.

Fears were also expressed at the loss in revenue arising from the 2p in reduction in basic income tax. Charities can claim back tax on covenanted giving and the VAT and Tax Reform Group estimated the tax reduction would lead to a loss of up to £2m in tax relief for its 200 members.

However, the Charities Aid Foundation, which specialises in managing covenanted giving, said that the increase in donations expected to result from the pay roll-giving scheme announced in last year's Budget should more than offset any reductions in income tax rebates.

Charities

Estimated total income for all charities, 1984 was £7.2bn, 1986 £10bn+



Just a little act of good housekeeping

MR LAWSON'S decision to repeal the Exchange Control Act is little more than a minor piece of good housekeeping, because the Bank of England closed its exchange-control operations with a loss of 700 jobs in 1979. According to Treasury officials it is merely intended to remove any uncertainty about controls bnieg reintroduced.

The uncertainty can scarcely have amounted to much, as the Chancellor himself implicitly acknowledged with a teasing reference to a recent speech in New York by Mr Roy Hattersley, the shadow Chancellor. In this Labour's Deputy Leader had declared his party had no intention to reintroduce statutory exchange controls.

The act was introduced at the start of the Second World War. It gave discretion to the Bank and relied heavily on co-operation by financial institutions and companies, the currency transactoins of which the Bank was obliged to monitor.

Since its suspension in October 1979, by Sir Geoffrey Howe, the then Chancellor, numerous developed countries have followed Britain's example in abolishing restrictions on capital mobility.

As a result, capital movements now exercise a more powerful influence on exchange rates that the underlying trade in goods and services. Further, since 1979 Britain has become the world's second-largest creditor-nation after Japan: its overseas assets, the Chancellor said yesterday, amount to about £100bn.

This accumulation of direct and portfolio investments accompanied the build up of North Sea oil revenue and was intended to provide a cushion when revenues started to run down.

Few in the City believe the Bank could rely on the same degree of co-operation as in the past if a future government tried to return to statutory exchange controls in peacetime — not least because of the huge influx of foreign banks and securities-houses to the City and because of the collapse of the City's club ethic in the aftermath of deregulation in the financial markets.

These practical difficulties explain why Labour is now proposing to put a brake on capital outflows by changing the tax system.

Labour's plans include removal of tax privileges for investment institutions such as pension funds and insurance companies if they fail to repatriate overseas investments above a given percentage of overall portfolios.

Part of the attraction for Labour is the support such a scheme would give to sterling, which traditionally weakens when Labour governments take office.

Tightrope walker wins applause in City and boos from unions

THE CITY and industry reacted enthusiastically to the Budget, arguing that it was responsibly cautious and would help growth without triggering high inflation. But the trade unions regarded it as a political ploy aimed at cultivating General Election votes.

Mr David Nickson, president of the Confederation of Birtish Industry, said the Chancellor's measures would reinforce business success. "Lower Government borrowing means lower interest rates and this is what the CBI wanted," he said.

The CBI had said it would judge the Budget on how it affected borrowing costs and the way was now clear for single-figure interest rates—each percentage point saved British industry £250m a year, he said.

"With British industry now much more competitive, this is the chance for us to win back our own home market as well as going for more exports," Mr Nickson said.

The Association of British Chambers of Commerce said the Budget was prudent and "reasonably generous." Particularly good news for business was the scope it gave for a reduction in interest rates of about 2 per cent over the next few months.

The main disappointment, according to the association, was the Chancellor's failure to cut national insurance contributions at the lower end in order to stimulate jobs. This had been a lost opportunity.

Reaction

RICHARD EVANS

From the City, the reaction was equally favourable, but there was an element of the lost opportunity. "It is a good Budget for small companies; it is a solid Budget," was the snap reaction of Mr Michael Hughes, chief economist of Barclays de Zoete Wedd.

But he added it was a slightly unexciting mix. "If you wanted to give an impression of solidity and strength of purpose, then this was it." The main surprise was the concentration on measures likely to reduce interest rates rather than on personal tax cuts.

Nomura International, the Japanese finance house, said the Chancellor had displayed his tightrope walking skills to the full with a Budget that wooed the electorate with tax cuts of £2bn and at the same time reassured the City that fiscal policy remained under control and that lower interest rates were on the way.

"The general shape and tone of the Budget is broadly welcomed and should provide further strength for equities, for the currency," said Nomura. for the currency,' said Nomura. Overseas investors should, therefore, find the UK increasingly attractive.

The reaction of the Trades Union Congress and of unions in general was much more hostile. "This is a throwaway Budget, not a giveaway Budget," said Mr Norman Willis, TUC general secretary. The Chancellor had thrown away the chance to create jobs, just as he had thrown away the country's oil revenues.

"The TUC wanted the Chancellor to invest in Britain's future. He has chosen instead the short-term easy way out. . . the ordinary families of the nation will pay a heavy price for such blatant opportunism."

Mr John Daly, general secretary of the white-collar union, Nalgo, said the Chancellor had confused the Budget box with the ballot box and was buying votes, not jobs. "He has squandered this year's windfall tax revenue," he said.

Mr Rodney Bickerstaffe, general secretary of the National Union of Public Employees, echoed the election line. He said the tax tonic, designed to buy Tory votes on tick, would not revive job-starved Britain.

In contrast, Aims of Industry, the right-wing pressure group, described it as "a sound, almost excessively non-election Budget, excellent for taxpayers and small firms," which should stimulate growth and increase employment.

The alcohol and tobacco industries greeted the decision not to increase excise duties with relief and motor organisations welcomed the move to reduce the tax on unleaded petrol.

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A bludgeon used gently

MR NIGEL LAWSON has been far from subtle in what is quite evidently an electioneering Budget; but he has been fiscally *responsible*. By *deciding to* use more than half the buoyancy of the revenue to cut borrowing rather than taxes, he has delighted the financial markets —*indeed*, it may be quite difficult to contain the strength of sterling in the immediate future, since it rose *sharply last* night on the expectation of lower interest rates. Ordinary taxpayers, smokers, *drinkers* and racegoers will no doubt be *appreciative of* what has and what has not been done. The poor and unemployed will not.

The tone of the Chancellor's speech was rather complacent, but he can readily be forgiven for that. The growth of the economy is accelerating a little, and the *growth of manufacturing* and exports are accelerating quite sharply, as it enters its seventh year of uninterrupted progress, and there does not seem to be any domestic reason to doubt that this progress can be sustained.

Biggest relief

Indeed, the *official projections* suggest that whoever is Chancellor next year will be in the same happy position, with a comfortable sum to spend, *save or remit*; and this projection is based on the cautious assumption that the oil price will average $15 a barrel. The forecast current account deficit should present no financing problems, because the UK economy, with its offer of steady growth, a *sustained* catch-up in productivity and large overseas investment assets is at the moment a favourite with international *investors*.

This popularity could prove quite durable, for the three major developed economies are all at the moment facing quite *intractable problems*, as the Chancellor pointed out. This means that perhaps the biggest relief contained in yesterday's Budget may well prove to be the one which the Chancellor did not announce—a cut in interest rates. It is now clear that this will amount to a full point initially, and it could well go further before long.

In the short term, though, this *faces* Mr Lawson with *something of a dilemma*. The most recent retail figures confirm that the consumer boom, partly credit-supported, has lost little of its force yet, and for purely domestic reasons he may wish to be cautious in cutting interest rates as he has been in cutting taxes. However, he must also wish to keep sterling stable *as a support for business confidence*; investment plans hinge far more on the medium-term prospect for competitiveness than they do on the short-term *outlook for* interest rates.

It is a great pity, then, that the Chancellor was unable to make even a passing reference to prospective British membership of the European Monetary System. This would not only provide solid assurance for business planners, but would restore the broad measure of monetary conditions which is needed to guide day-to-day monetary policy. By simply abandoning Sterling M3, without putting anything in its place, Mr Lawson has taken all *the tactical rigour out* of his ever-changing medium-term financial strategy.

The other regrettable omissions in this Budget were the lack of any measures aimed directly to relieve unemployment, or to assist the poor. The *Opposition will undoubtedly* make much of this; a cut in national insurance charges, to reduce the cost of employment, a rationalisation of the scale *of employee's contributions* to reduce one more poverty trap, and an increase in family allowances all figure in their proposals, and some recent polls suggest that many voters prefer the alternatives.

The failure to index excise duties *also* seems *a little insensitive*. This will win a catchpenny headline or so, but in a poor cause. Perhaps the real reason was to suppress a small *bulge in the RPI in May and* June; by implication, one of the figures Mr Lawson failed to omit was the date of the general election.

Least exciting

However, one omission was extremely welcome; Mr Lawson has not raised the ceiling for mortgage tax *relief, despite* some pressure from his backbenches and possibly from more august lobbyists. The smaller positive measures all seem well-conceived: greater freedom for private pension provision, some reinforcement of the incentives *for* profit-sharing, measures which will reduce both the financial and form-filling burden of VAT on small businesses, and carefully limited incentives for North Sea *oilfield* development. Those who find some loopholes blocked, have to pay more for their business cars, should be able to pay up with a smile.

Perhaps the least exciting feature of the Budget, though, is its centrepiece. Everyone expected 2p off income tax, and it would be unfair to complain on *that account. It is paid for* partly by the failure to index the higher-rate tax bands, which is perfectly fair, and partly by the failure to raise the lower *limit for national insurance contributions*, which is not.

The balance is made up almost entirely from business taxes; the Budget in fact represents *no detectable change in* the total burden of non-oil taxes on the economy. So the cut is not only unexciting, but partly illusory. Even within the very tight *fiscal limits* he rightly set himself, Mr Lawson might have contrived some more finely aimed measures.

A taxing time for Japan

TWO JAPANESE numbers have caught the eye this week. First, the nation's gross national *product, once the envy of the* western world, expanded last year by a mere 2.5 per cent in real terms; not that shabby by international standards but the *worst Japanese performance in* 12 years. Second, the popularity of Mr Yasuhiro Nakasone, the distinctive Prime Minister whose party was returned by a landslide only last summer, has dropped to its lowest level in his four and a half years of *office, mostly because of opposition* to his proposed new sales tax.

The twin figures neatly illustrate the Japanese dichotomy. On the one hand, there is no doubt that the appreciation of the yen is hurting an economy *that has thrived on exports*. Unemployment is at a post-war high of 3 per cent (greater if Western measurements were applied), corporate profits are routinely down by a third or more compared with 1985 (albeit after two fabulously *successful years) and* exports are running at 15-20 per cent below last year's levels (at least when counted in yen).

Different perception

On the other hand, it is much less clear that the pain is now so great as to cause those who matter in Japan, in industry *and government* especially, to contemplate abandoning all the tried and trusted methods that have served the country so well for so long. These include, in *this decade, a commitment* to fiscal austerity and, for much longer, a belief that thrift is a national virtue. Mr Nakasone's problem, not a new one for him, lies in his willingness to go against the grain.

Outsiders tend to feel that his tax reform package is cautious. The new sales tax and the removal of the tax exemption on small savings are basically de*signed to* finance the proposed reduction *in income taxes*; the net result is, initially, fiscally neutral and certainly does not *constitute* the stimulus to the economy that Japan has frequently promised to supply, most recently at the Paris meeting of finance ministers.

The perception in Tokyo, by both protagonists and opponents of the plan, is entirely different. There it is seen as positively revolutionary *because it attacks* the principle of thrift that is so much part of Japanese public and private policy. Combine this philosophical objection with the dislike of powerful vested business interests for any form of consumption levy and it is apparent that Mr Nakasone has bitten off as much, and maybe more, than he can chew.

Book juggling

If it goes through, the Nakasone camp argues, then other structural *changes may follow*, though probably after a decent interval. But in the more immediate term the price is likely to be an avoidance of any form of risk on the government spending side. The government is still officially *pledged* to end deficit financing by 1990—how this is to be achieved remains a mystery—and will thus probably confine itself to conventional book *juggling devices such* as front loading public spending, much of which is drawn from the so-called "second budget." Fiscal austerity, however, will remain intact.

Some stimulus could be provided if the sales tax were delayed for a year, while other parts of the package go through. But that may be the most the West can expect from a country whose preference is for incremental change. If the US economy continues to hold up, in the end the magnitude of what Japan needs to do may lessen.

Economic assessment

Better than the City expected

By Samuel Brittan

IDEALLY, the Chancellor would not have reduced mainstream taxation at all. Or if he had done, he should have played around with allowances, thresholds and clawbacks, or increased next month's new benefit scales selectively, to help those at the lower end.

But given the enormous pressures on him from his own party, his next-door neighbour at Number 10, and the prevailing climate of crude fiscal arithmetic, he has done much better than one had a reasonable right to expect.

His projected Public Sector Requirement for 1987-88 is, at £4bn, at the lowest end of financial market expectations. Moreover, his projection is based on a deliberately cautious estimate of a $15 per barrel *oil price, some $3 below current* levels. Public spending may of course be larger than projected. But *so too is likely to* be revenue.

The way is now open for a series of interest rate cuts, which will be necessary if *sterling is to remain in the* range which he indicated in the Paris meeting of the Group of Five and which is reaffirmed *sotto voce* in the Budget documents. The assumption in the Red Book that the trade-weighted sterling index will *not change is rather firmer than* usual and comes after a reference to recent undertakings at international meetings.

The mian test for the Chancellor will be how he handles these interest rate reductions and the credit demand they are likely to stimulate without stoking up inflationary expectations.

But economic policy is not all or mainly *macro-economics*. Faithful readers will remember that I have always said that I would apply two main tests to the Budget. First, I would judge *it* by the Chancellor's resistance to any political pressures from the Prime Minister or elsewhere to raise the threshold on mortgage *interest relief above its present* £30,000 and thus add to the distortions in the housing market. He managed without doing anything at all to the mortgage ceiling.

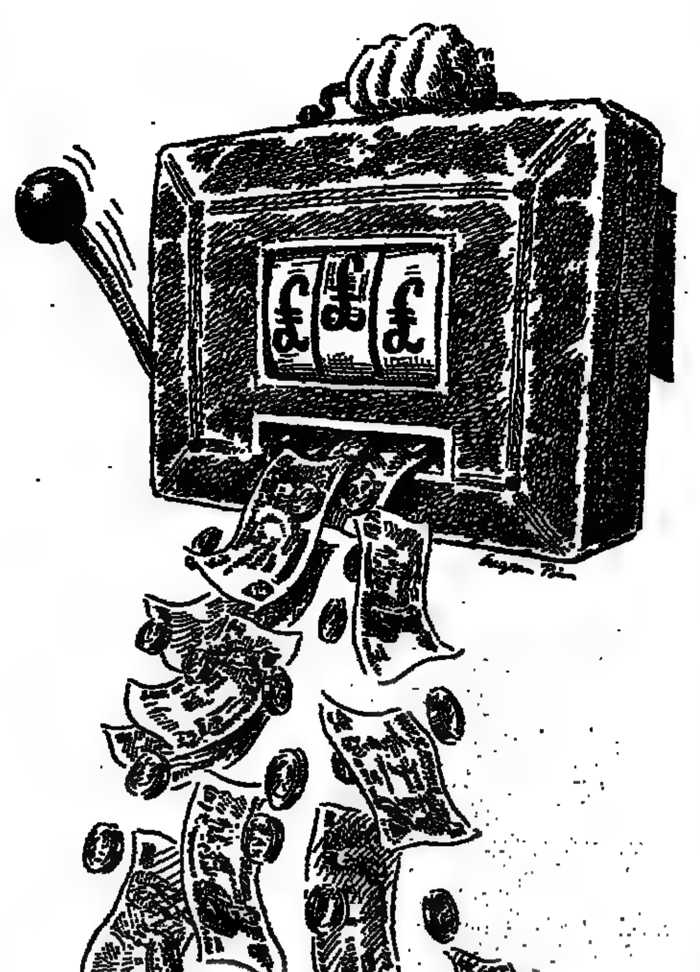
Secondly, I said that I would judge the Budget by what the Chancellor did on Profit-Related Pay which is a far more important subject than tax reform. In fact he doubled the scale of incentives in last autumn's Green Paper; and although someone who would like to try a full Martin Weitzman experiment would want still more, it would be churlish to grumble.

Having followed this negative and positive prescription on two key issues, and not done anything wildly extravagant on the macro-economic side, I am bound to say that in the circumstances it is a good Budget —far more so than an exciting set of measures which would have been cheered more loudly by his own Backbenchers, but would have had to be taken back in the autumn like the last *spring* Budget of R.A. Butler in 1955.

My main quarrel would be not with the Budget but with the speech. The Chancellor might have made far more of the scale of relief now available to the employee on Profit Related Pay. A married man on average earnings might start off with only £80 per annum of relief, if the profit-related element began at 5 per cent of the total pay packet. *But if it eventually rose* to 20 per cent, which is the underlying idea, the tax relief would be nearly £320 equivalent to another 4p off the basic rate of income tax. For someone on higher earnings the relief would come to over £400.

But the Chancellor did not enlarge either on the tax benefits from adopting PRP or *on the economic case for it*, which he will have to do to make an impression on stodgy *business* and trade union leaders who still do not have the faintest idea of what is involved.

Indeed, the whole forward-looking section of the Budget speech was concerned mainly with minor Inland Revenue adjustments which could have gone into press notices. One *heard nothing* about themes such as the need for regionally differentiated market-related pay, which have occurred in earlier speeches and which suggested that after nearly two terms of neglect, Ministers were at last taking the labour market seriously.



UK FISCAL POLICY

Fiscal year	PSBR £bn	% of GDP	£bn excl privatisation	Excl. privatisation % of GDP
1974-79 (av.)	8.2	6.8	8.3	6.8
1979-80	10.0	4.8	10.4	5
1980-81	12.7	5.5	13.1	5.5
1981-82	8.6	3.3	9.1	3.5
1982-83	8.9	3.3	9.3	3.3
1983-84	9.8	3.3	10.9	3.5
1984-85	10.2	3.0	12.3	3.8
1985-86	5.8	1.6	8.5	2.3
1986-87	4.1	1.1	8.5	2.1
1987-88	3.9	1.0	8.9	2.2
1988-89	4	1	—	—
1989-90	5	1	—	—
1990-91	5	1	—	2

N.B. Figures for 1986-87 are Treasury estimates and for later years Treasury forecasts.

Source: Financial Statement and Budget Report, 1987-88

Maybe Nigel Lawson considers that the House of Commons in pre-election mood is not the place to explain elementary economics, *which is regarded* as provocative on the Opposition benches and boring or monetarist by all too many on his own side. But there will *be several opportunities* to repair these omissions, for instance, in the speech he is making next week at a conference celebrating the 25th anniversary *of* the National Economic Development Council. These matters are just as important as the financial issues on which City comment concentrates; and if these are not resolved, there will be no financial markets.

The financial markets should however be interested in the strides that have been made in reducing public sector borrowing which are shown in the table. The headline story is that the Treasury goal of reducing *the PSBR* to 1 per cent of gross domestic product has been achieved. With this painful process behind us there would then be room for further fiscal adjust*ments (ie. tax cuts) in the fol*lowing three financial years on roughly the scale of the present Budget. If this room for manoeuvre were taken up by *extra public spending instead*, the fiscal arithmetic would not change and the puritanical instincts against "money in the pocket" would be satisfied.

The underlying story is slightly, but not dramatically, different; it is shown on the right-hand side of the table. Excluding privatisation, the PSBR *has fallen* from nearly 7 per cent of GDP to around 3½ percent in the early 1980s. It is now hovering just above 2 per cent; and is expected to fall *extremely gradually* to that percentage by the end of the decade. This will not be enough to satisfy the "debtists," who believe that a safe proportion would be 1 per cent. But it is for all practical purposes low enough, except in years of inflationary pressure.

The Budget Red Book brings out very clearly the Government's very gradualist approach to "zero inflation." The Chancellor had to forgo the usual indexation of the excise duties on drink, tobacco and *petrol* to keep the forecast rise in the Retail Price Index this year to 4 per cent.

The more important GDP *deflator is expected to rise* to 4½ per cent, with the temporary relief from lower oil prices out of the way and then fall only gradually towards 3 per cent by 1990. But to go faster without interrupting the fall in unemployment *would* require either radical intervention in the labour market or adhesion to the European Monetary System.

My own view is that the Treasury forecasts *understate* real growth, partly because they *underplay* the credit boom and partly because the Treasury's forecasting equations are much too pesimistic about the effects of a devaluation, which is expected *to last, on exports* and imports. The £2½bn current payments deficit predicted for this year is mythical because it ignores the much larger balancing item; and even *on its own* terms it understates the likely growth of exports.

But this very underplaying of the bullish forces carries its own dangers. For *rapid demand* growth can all too easily spill over into inflation. The intellectual core of the Medium Term Financial Strategy is the projected path for total spending in the economy as measured by Nominal GDP. It is the very simplicity of the concept which so-called financial experts find *difficult to understand* and which reduces its selling appeal in the Commons.

Anyone who thinks *it is* just a hobby-horse of mine should look at the Red Book or the Budget Speech in both of which it has a key position.

The increase *in the* growth of Nominal GDP from 6 per cent to 7½ per cent in 1987-88 is no cause for worry provided that it simply compensates for depressed growth at the beginning of 1986 and proves a temporary peak as the Treasury projections suggest. But can we really be sure?

It would be wrong-headed in the extreme to throw away all the economic gains of last year by allowing sterling to rise further. Btu fiscal restraints to offset lower interest rates are not politically feasible now and may not be very feasible after the election.

The one practical method of preventing low interest rates from being inflationary—in which case they would also be very *temporary*—is to go beyond the present vague expression of intent about sterling and to lock the pound in with the D-Mark. The EMS is merely a convenient way of doing this.

Membership would also set up the right policy signals so that there would be no need for nervous fine-tuning if there were *temporary overshoots* of either nominal or real GDP growth—from which we could even benefit in terms of mopping up unemployment.

Thus the case for EMS membership is no longer something with which to tease the Prime Minister, but an urgent practical need if only as an insurance premium. The necessity is now so great that I do not think any individual, however opinionated, will be able to stop it.

A sprint start for the custom-made pension

By Eric Short

THERE IS LITTLE doubt that individual pensions are in the centre of the *Chancellor's* personal savings strategy.

The reforms in pension tax have the aim of strengthening the previous moves by the *Government to liberalise* the provision by individuals of their own pension arrangements.

But there is also an unexpected attack on the use of pension arrangements by controlling directors and other very highly paid executives as part of tax avoidance schemes.

In liberalising individual pensions, the Chancellor has announced two new moves.

First he is bringing forward the start date of the new-style personal pensions by three months to next January instead of April (at least for employees not in a company pension scheme—others will have to wait for the original date).

Second he is freezing AVC (additional voluntary contribution) arrangements for those employees in a company shceme.

Under the 1986 Social Security Act, employees will be able to leave a company pension scheme or the State Earnings-Related Pension Scheme (Serps) and make their own pension provision.

Now employees will be able to *leave* Serps from January 4 1988 and, if desired, backdate the minimum required contribution for the whole of the tax year 1987-88, including getting the benefit of the extra 2 per cent contribution incentive *for* six years

However, employees in a company scheme will still have to wait for the original start date of April 6 1988 before they can join a personal pension. Moreover, the *incentive* will be paid for only five years.

The tax rules for personal pensions are almost the same as fore retirement annuities for the self-employed, as set out in last November's consultative document, but there are two notable exceptions.

Employees are to be permitted to have more than one personal pension contract at any time. At retirement they will be allowed to take 25 per cent of the value of their policy in a tax-free cash sum, whereas the self-employed, under a more *complicated formula*, can usually get a higher proportion in cash.

This advance of the start date may be welcomed by employees, but will be received with mixed feelings by the institutions providing personal pensions.

The Government has still not published the full regulations under which personal pensions will operate. In particular, the *method of marketing and the* expenses structure have still to be defined. Until these are known institutions cannot design pensions in any detail and set up their tailor-made administration systems.

Employees in company pension schemes have always been able to boost the benefits from the main fund by making AVCs. However, there have been severe restrictions: only the trustees have been able to set up AVC arrangements and employees have had to commit themselves for at least five years.

From October this year, employees will be able to make their own AVC arrangements with an institution of their *choice, paying contributions* directly on a net basic tax basis (similar to the Miras system for mortgage payments). In addition, they will be able to make *contributions on a yearly basis*.

Employers will still be subject to an overall contribution payment of 15 per cent of earnings (including payments to the main scheme) and only one scheme per year will be allowed. However, it is not all a matter of concessions from the Chancelor this year.

On the restrictive tack, he has put an overall limit of £150,000 on the amount of tax-free cash that can be taken from a company pension scheme or *an individual's one or more* pesion contracts.

However, this will only apply to future private plans taken out, or to employees joining their company scheme as from yesterday. Existing entitlements will be unaffected.

Under a company scheme the restriction will affect only those employees earning over £100,000.

At present, employees in company schemes can adjust the lump sum benefits so as to get out the maximum permissible cash sum, without *having to* adjust the pension—known as accelerated accrual benefits. This will no longer apply, and higher cash sums must be accompanied by *higher* pensions.

To this end, the Chancellor will not allow AVC benefits to be comuted *for cash sums*, a restriction which amounts to another dampener on pension mortgages.

More generally, the £150,000 cash-limit will have *implications* for the development of more ambitious pension mortgage schemes, particularly unless this limit is revalued in line with earnings growth. In a roughly parallel situation, successive Chancellors have not upgraded *the limit on the size of mortgages* qualifying for tax relief on interest.

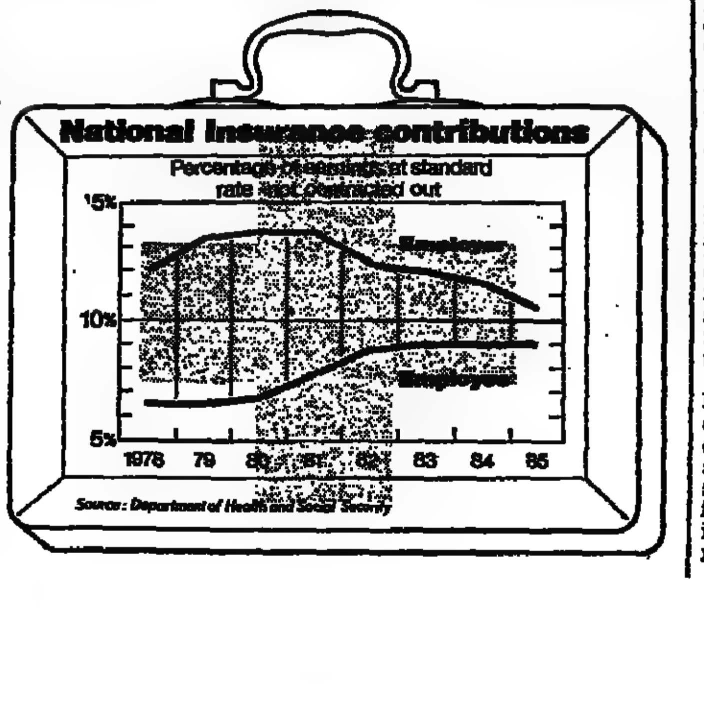
Indeed, Mr Lawson suggested that there have been abuses of the generous tax treatment of pensions by some highly paid people and this is to be addressed not only by the limit on cash commutation, but a general tightening up of the rules governing the level of benefits paid.

Under a company pension scheme, benefits are usually based on earnings at or near *retirement*. This has led to some highly paid executives boosting earnings artificially in the 12 months preceding retirement by a variety of devices, one common example being the manipulation of the maturity of share option schemes.

Up to now, the Inland Revenue has allowed bonus payments and other supplementary income above basic salary to be taken into account in calculating *earnings for pension purposes*.

So the Chancellor is proposing that:

- Gains from share options will no longer be included in final *remuneration calculations*.
- Employees earning £100,000 or more will have their remuneration averaged from the best three-year period out of the final 10 years before retirement.
- Controlling directors will also be *subject to these restrictions*.



Step on road to recovery

BY TERRY DODSWORTH, INDUSTRIAL EDITOR

TRUE TO expectations, the Chancellor did not produce a Budget which promised great things for industry. But his tone of cautious optimism, reinforced by measures aimed broadly at encouraging investment and exports, seemed to meet the approval of a large chunk of the UK corporate sector.

Sir Trevor Holdsworth, chairman of GKN, the engineering and motor components group, spoke for many other industrialists when he said that the Government had selected the right targets in aiming to push down interest rates, while keeping inflation under control and maintaining sterling at a competitive level.

"The cost of raising money will be cheaper, and that will be good *for investment and for* Britain. I think this is another step in the effort of getting us back upstream," he said.

Mr David Nickson, the CBI *president*, also emphasised interest rates, saying that the way was now clear for single-figure rates. Each percentage point off rates saved British business £250m a year, he said.

Where there was disappointment with the Chancellor's speech *it mainly centred on his* failure to take specific action to improve the rate of investment and spending on research and development.

These are both areas in which recent figures suggest that Britain is lagging behind its competitors, notably *in* the electronics industry.

The Electronic Engineering Association, *for* example, was lobbying hard this year for measures to give larger allowances against pre-tax profits for audited investment in R & D.

"The Government has totally ignored this problem," said Mr Peter Sachs, director of the EEA, "but meanwhile our non-oil trade balance keeps declining. *We believe that there* should be some help for innovation and some form of industrial policy."

The British Institute of Management was *also* critical of the Chancellor's failure to encourage the technology sector as well as the lack of moves to step up public spending in *infrastructure development*. But it stressed that the Government measures on VAT and inheritance taxes would be useful to small business, an area of significant growth in the economy.

In addition, said Mr Peter Benton, *director-general* of the BIM, the Budget's help for individual managers through tax concessions on parallel pensions, lower tax rates and *profit-related pay* would be extremely helpful.

There was widespread agreement in industry and the City that the Chancellor's proposals on corporation tax, which will tidy up payment periods and claw back some tax in a one-time gain, would not have a significant impact on corporate treasuries. Alongside the re-

adjustments in advanced corporation tax the impact would be neutral for many companies analysts suggested.

Cash-flow is running strongly in British industry at present and profits are expected to be up by about 15 per cent this year. *Most companies are also* relatively undergeared—Hoare Govett, the broking firm, for example, says industrial companies have an average debt-equity ratio of only 12 per cent —meaning that interest payments no longer pose questions of survival.

Hence the main issue, say industrialists, is not so much the corporate balance sheet as the ability of British industry to expand and compete *overseas*. Interest rates are important in this, they add, because they set *the* scene for investment and have such a direct impact on sterling and thus *on exports*.

Heavy manufacturing companies made clear yesterday they did not want to see any further rise in the pound's value and that a *slight* reduction would be useful. Some questioned whether a 1 per centage point cut in interest rates would be sufficient to achieve the desired effect.

THE BUDGET: Analysis

Political assessment

Chancellor with no need to rush

By Malcolm Rutherford

CHANCELLOR Lawson had the best of both worlds: he has given something to almost everyone, yet at the same time can hardly be accused of recklessness. His 1987 Budget will be very difficult for the opposition parties to attack, or for the markets to dislike.

Given the amount of revenue available, the key decision was clearly how much to give back in income tax and how far to cut the borrowing requirement. In the event, he compromised: 2p off the standard rate and borrowing down to £4bn next year.

A cut in interest rates will presumably come today and, if not, very shortly afterwards. There seems no immediate reason to think that sterling will be unable to stand the strain.

There was also an implicit promise that if the Government is allowed to continue on its present course and there are no international setbacks, there will be further tax cuts next time—after the general election. The Chancellor stressed that the target of a basic rate of 25p is still very much in mind.

By holding a further cut in reserve, he has helped shield himself from the charge that he was too blatantly electioneering. More importantly, he chose not to take any risk of an adverse reaction from the markets. "£ in trouble after give-away Lawson budget" must be just the sort of headline he wished to avoid.

The unusually short Budget speech—a little under an hour—was in many ways an account of the Conservatives' stewardship since they returned to power in 1979. More particularly, it traced the record since the economy started to grow again after Sir Geoffrey Howe's Budget of 1981, which even many Tories said at the time was unduly deflationary.

It was also a bit of a personal odyssey for the Chancellor. It was he who first outlined the medium-term financial strategy as Financial Secretary to the Treasury at the beginning and insisted on the long-term aim of bringing down the public sector borrowing requirement as a percentage of gross domestic product, even though he was prepared to allow fluctuations.

His experience as Energy Secretary must have been invaluable wren, as Chancellor, he was helping the Government preside first over the year-long miners' strike and then over last year's sudden collapse in the oil price. It was the Chancellor who, in his previous incornation, had sought to build up coal stocks in such a way as to make the miners' strike abortive and who resisted pressure from Saudi Arabia and the rest of Opec to cut North Sea oil production to try to raise prices again. With the support of Mr Peter Walker, the present Energy Secretary, he won: the price rose without North Sea output being deliberately reduced.

If that had not happened, it is doubtful whether yesterday's budget would have been anything like so confident.

The most triumphant note in the Chancellor's speech, however, was reserved for the passage on the reduction of the PSBR. Mr Lawson broke off from his catalogue of figures and said: "Economic arguments are seldom concluded one way or another. This is chiefly because it is unusual for economic policies to be held in place long enough to provide sufficient evidence. But the 1980s have been different—and, as a result, one critically important argument has now been concluded, finally and decisively.

"Throughout the period of office our critics have consistently maintained not only that a fiscal stimulus would produce real economic growth, but that without an expansionary fiscal policy sustained growth was impossible. They were wrong and they have been proved wrong."

It was as though he were proclaiming that he had taken on the bulk of the economic establishment, including the four ex-economic advisers to the Government who wrote to the Financial Times on Monday demanding a change of course, and beaten them three sets to love.

There must have been one other personal pleasure: the decision to repeal the Exchange Control Act in the course of the passage of this year's Finance Bill. When the Conservatives abolished exchange controls in 1979, they kept the Act in reserve—just in case. Now they are abolishing it altogether, while noting that other European countries are beginning to follow the same path of liberalisation.

There were let-outs, of course. He warned, for instance, that there are still serious imbalances in the US, West German and Japanese economies which could lead to further turbulence on the exchange markets. But even here there seemed to be a note of increasing confidence in international co-operation. Full British membership of the European Monetary System was not mentioned because the Prime Minister has ruled it out. For the rest, the belief in the ability of the Group of Five to promote stability appears to be growing.

At home the cumulative effect of the Government's economic policies over time was brought out in the new figure for individual share ownership. This has risen to 8½m or one-fifth of the adult population—up threefold since 1979. When this is coupled with wider home ownership, something of a sea change can be seen to have taken place in the last few years.

Much of the rest of the Budget was a tidying up exercise: simplification of VAT and inheritance tax and refinements of the Petroleum Revenue Tax. Again over time, though, the effect is cumulative. Taking Mr Lawson's four budgets together, the tax system has been simplified even if there is still some way to go.

The most obvious piece of electioneering was the decision not to raise the duties on alcohol and tobacco. It means that they will almost certainly go up rather sharply next time, but this year the Chancellor clearly wants as many friends as he can find.

Equally, the Government is not going to lose any votes by raising the tax allowance for the blind and for those aged 80 and over. It looks generous, yet does not cost very much.

So when will the election be? It now looks most unlikely that it will be on May 7, the date of the local elections, if only because the tax cuts will not take effect under PAYE until the first pay day after May 17.

It could be in June, but the dignified course would be not to hurry and to wait instead until late September or early October. That would be in line with this Budget, which was one of gradually putting the promised pieces into place. There is no need to rush.

Impact on individuals

Disappointing for the radical lobby

By Clive Wolman

THOSE WHO believed that last year's dramatic cuts in US income tax rates would encourage the UK Government to embark on a similar, if more modest, programme, must have been as disappointed by the limited scope of Mr Lawson's fourth Budget yesterday as the tax reform lobby were by his second.

Whereas other countries such as Japan, West Germany and France have decided to cut their higher rates of tax following the US initiative, Mr Lawson has resisted the pressures to do so. Despite the lack of political popularity for cuts in higher rate tax among the electorate at large, pressure for cuts had built up from the business lobbies, the right-wing of the Conservative Party and from the increasingly vocal threats to emigrate from managers and professionally qualified workers.

Mr Lawson did not even renew an earlier hint that after the election, when the issue will be less sensitive, the top rates of tax are likely to be cut. In fact the non-indexation of the income thresholds at the 50, 55 and 60 per cent rates will increase the proportion of those facing the top marginal rates of tax over the next year.

Mr Lawson has also resisted pressures in the opposite direction, to limit mortgage interest relief to the basic rate of tax. Higher rate taxpayers will therefore continue to be able to offset their mortgage interest payments against their top marginal tax rates.

The cut in the basic rate of tax to 27 per cent was the minimum that was expected. And Mr Lawson appears to have abandoned the initiative he began in 1985 to alleviate the poverty trap by raising personal tax allowances and the lower earnings limit for National Insurance Contributions (NICs) by more than the inflation rate.

As 96 per cent of income taxpayers pay only at the basic rate, the new 27 per cent rate may appear to be in line with the top US rate for federal tax of 28 per cent. But Mr Lawson's failure to follow through another 1985 initiative, rationalising the NICs system, means that the 27 per cent rate is misleading. Out of each additional £1 paid out by an employer over the next year, only about 54p will end up in the hands of an employee earning up to £285 per week. The rest goes in tax and NICs.

In other, more narrowly targeted areas of personal tax Mr Lawson has been more generous, in particular to the rich and the elderly. The increase in the starting rate for inheritance tax from £71,000 to £90,000 (instead of to £74,000 which would have been in line with inflation) will cut by a third the number of people—or at least estates — likely to pay inheritance tax. However, most of these Budget beneficiaries would in any case have been paying only small amounts of tax. So the loss to the Exchequer will be modest, an estimated £170m a year by 1988-89.

As Mr Lawson pointed out, the expected yield from inheritance tax will in real terms be 50 per cent higher than the yields from Labour's capital transfer tax in 1978-79. But the poor design of capital transfer tax in the mid-70s meant that there was bound to be an initial slump in yields followed by large increases in later years. Mr Lawson's reforms last year (when capital transfer tax was replaced by inheritance tax) and this year have taken away the teeth of a gifts and bequests tax just as it was starting to bite.

The other changes in personal tax appear to have been made in response to particular political pressures rather than as a result of any coherent reformist strategy. The introduction of a new and more generous category of age allowances for those aged 80 and above may have been a response to the well-publicised problems of hyperthermia suffered by the elderly during winter. The measures will have a limited effect.

The Government estimates that about 400,000 people will benefit from this measure, but only 25,000 or less will be taken out of tax altogether as a result of the change. There are more than 1.5m people aged over 80 in the UK of whom about 70 per cent are women.

A high proportion of the over-80s rely on the social security system and do not pay any tax. At the same time, the wealthy elderly will not benefit because of the way in which the age allowance is clawed back at higher income levels.

Some of the changes in pension tax provisions, in particular the introduction of greater flexibility in making additional voluntary contributions (AVCs) have the virtue of fitting in with two of the Government's objectives which have been promoted with increasing zeal since 1983. These are the encouragement of more direct forms of share ownership and of more personalised forms of pension provision.

The AVC provision will allow the individual to build up in a tax shelter a portfolio of shares or unit trusts on his own initiative and independently of his employers' occupational pension plan. This may prove to be a much more attractive alternative to many employees in their late 40s, 50s and early 60s than the option, to be granted from next year, of leaving the occupational pension scheme and setting up a personal pension plan. Employers will still be able to treat less generously those employees who opt for complete independence. And the risks of a greatly attenuated pension if the investments in a personal pension plan fail to perform well are substantial.

The AVC alternative however can be set up alongside an occupational pension scheme. The ultimate benefits will then supplement the retirement income provided by the occupational scheme. The Revenue is to retain its restrictions on the maximum amount of benefits that can be taken from a pension plan by an individual which covers both an occupational scheme and an AVC plan. This could mean that some of the benefits of the investments in an AVC plan may just go to waste. However, there are assets within an AVC plan for example by buying an index-linked pension annuity or writing on the joint lives of the pension contributor and his or her spouse.

These restrictions however will make the process of investing in an AVC plan more complex than just going into a bank and buying shares. It will therefore enhance the importance of sound financial advice which commission-driven insurance and pensions salesmen cannot always be relied on to provide.

Today's letters are on Page 18

THE THATCHER REVOLUTION

AFTER almost eight years as Prime Minister and 12 as leader of the Conservative Party, Margaret Thatcher has established herself as the most important figure in post-war British politics. The "Thatcher revolution" has touched all areas of political, economic and social life.

In a major attempt to assess Mrs Thatcher's record, the FT plans to publish a series of more than 20 articles. They will deal with the economy, social policy, business and foreign relations.

FT writers have also been talking to "the class of '79" — individuals for whom the year Mrs Thatcher won her first election was momentous; people who lost their jobs, left school, retired or took over key positions in industry.

The series starts on Monday and will run every weekday until April 8.

Men and Matters

El-Sayed faces bankruptcy

Personal bankruptcy is now looming for Rafaat El-Sayed, less than 18 months ago Swedish television's "Swede of the year," and possibly the country's richest individual.

While Fermenta, the antibiotics company that the Egyptian-born entrepreneur turned into one of the hottest stocks in Europe, has plunged from one crisis to another, El-Sayed's own fortune has evaporated, leaving his creditors baying for the repayment of around SKr 1bn.

Yesterday the bailiffs moved in for the first time seizing assets worth around SKr 800,000 on behalf of Gotabanken, the Swedish bank that is facing the uphill task of clawing back SKr 578m from El-Sayed. Leif Silbersky, one of Sweden's Star lawyers, who is acting for El-Sayed, admitted: "If Gotabanken wants to put him into bankruptcy, they can do it."

El-Sayed himself has spent much of his recent time travelling abroad in a desperate attempt to find financial backing to buy back control of Fermenta. But at home in Sweden, the problems only multiply.

As the creditors move in, the public prosecutor's office is pursuing its investigation of his Fermenta affairs, having officially informed him that he is suspected of serious fraud, serious book-keeping crimes, and breaches of Sweden's companies act.

At last week's latest Fermenta shareholders meeting, El-Sayed was subjected to a blistering attack from the company's outgoing chairman Kjell Brandstrom, who said it was "unbelievable that he had been able to dupe so many for so long."

Those taken in completely by El-Sayed according to Brandstrom included "20-30 banks in Sweden and abroad, a large number of highly qualified financial analysts from banks and brokers, and highly qualified financial journalists, as well as the company's old board and its auditors."

Sweden's biggest post-war corporate scandal still has a long way to run.

Party bird

Ewan Launder was well aware that attaching his surname to a new Nassau-based investment bank would risk comments that were wry at the least.

So he did the next best thing, hatching Quail Investment Company from his middle name, Quayle.

"The quail is a small European bird that doesn't fly and keeps a low profile, but is successful in its endeavours," explains Allan Campbell, the company's number two.

Like managing director Launder, and Quail's third key man, Quentin Baer, Campbell is a veteran of the far-flung empire of Hongkong and Shanghai's Wardley merchant bank.

Since emerging from the nest in 1984, Quail has advised Nevi in the Norwegian company's successful offer for the former Baltic Leasing, and has turned up again this week at the head of a concert party which has bought 29 per cent of W. A. Tyzack, the Sheffield engineering group.

Quail, and Jersey-based Quarius Investments, see their holding as passive, Campbell says, but board representation is being discussed.

Collection day

After working in medical research from Monday to Friday Professor Dennis Chapman becomes a money man on Sunday morning.

That is the day he devotes each week to hustling for research funds to help support a team of 20 at the Royal Free Hospital school of medicine.

"The extra pages are the only benefit from my point of view"

His persistence at his second discipline is paying off. He has just persuaded the City to put up more than £1m for a new company, Biocompatibles, which is to try to exploit some far-out ideas for new medical technology.

Chapman, who holds the view that Britain's academic world finds industrial money "inferior" to government handouts, has scant sympathy for the Save British Science campaign which has been led by some Oxford dons.

Preferring to do his own thing, Chapman has declined an invitation to join the campaign which, he says, expects the taxpayer to keep meeting demands for more research money. He says of the campaign's supporters. . . . "They are right out of touch with today's world."

His robust view is that research should be funded wherever the scientist can find a reputable patron. To ram home the point he reminds me of the occasion he once experienced as a Cambridge don trying to set up a new laboratory with industrial support — when his seniors argued that, "Engineering is not a fit subject for scholarship."

Freudian slip?

"Honne" and "tatemae," I am told, are two of the most important words to know in understanding the Japanese.

They refer to the practice of concealing what you really mean (honne) with an elegant euphemism or even a lie (tatemae). Japanese businessmen are, needless to say, past masters at this, and anyone dealing with them must be very careful in interpreting what he is being told.

Thus, an "erratum" notice in the March newsletter of the Electronics Industries Association of Japan came as something of a surprise. Toshio Takai, president of the EIAJ, which represents Matsushita, Hitachi, Sony, and other giants that have ravaged the electronics industries of Europe and the US, was observing in the newsletter the similarity of recent market trends in the US and Japan.

He wrote: "This fact is interesting since it indicates that one nation's electronics industry cannot grow except at the sacrifice of the other."

What Takai really meant to say, the EIAJ hastened to point out, was that one nation's electronics industry cannot grow by sacrificing the other.

Some might prefer to believe that this was a rare case of the honne covering up the tatemae.

Observer

FINANCIAL TIMES
Wednesday March 18 1987

A question of market performance

John Wyles in Rome reports on Fiat's attempt to see off the opposition in the bid for Alfa Romeo's heart

HOW DO you turn around a car company which has lost more than £800m over the last 11 years, operates at less than 50 per cent capacity, has 12 per cent of its workforce on indefinite lay-off and is struggling to maintain sales in a booming market?

Understandably, this question has been occupying the best minds in the Fiat group since it decided last October to make a bid for Alfa Romeo which would be certain to see off a rival offer from Ford.

In a sense, this was the easiest part of the exercise and the Fiat strategy for developing prestige "Alfa-Lancia" cars undeniably impressed both IRI, the state-holding company which had owned Alfa since 1933, and the Italian people. Fiat thus won the prize and the challenge to make a success of Italy's most sensitive act of privatisation.

But until recently, the question has remained: how exactly would Fiat implement a L3,750bn ($2.87bn) five-year investment plan, bring in new models, make profits by 1991 – and all to be accomplished without any forced redundancies?

As if peeling an onion, Fiat has been gradually supplying some of the answers over the last six weeks during long, tense sessions with nervous and divided union representatives of Alfa's 34,000 workers.

In the process, Fiat has drawn a picture of a company which had fallen far behind the competitive standards required to prosper in world markets, with production methods that were either inefficient or outdated, or both, and whose management was losing a battle for power with the organised unions.

The parallels with Fiat's own predicament in the late 1970s are not lost on Mr Cesare Annibaldi, Fiat's *director for external and industrial* relations, who is masterminding the negotiations with the Alfa unions. "We know the task is very difficult, but we have succeeded in Fiat and we would not have bought Alfa if we did not think it could be done there," he said.

Essentially, the task is to raise Alfa to the standards of productivity and profitability which Fiat now enjoys. The productivity "gap" has been precisely measured at 37.5 per cent, which means, as Mr Giuseppe Tramontana, Alfa's managing director, told union leaders, "working more and working better." Two thirds of the problem stems from working practices, added Mr Tramontana, and one third from problems of factory organisation and equipment.

Alfa's search for higher productivity began long before Fiat ar*rived on the scene but the men of* Turin are still astounded by the solution adopted in 1981-82. This borrowed from the "work group" concept of job enrichment pioneered by Sweden's Volvo but sought to apply it to the moving assembly lines at the company's two plants at Arese near Milan and Pomigliano del Arco outside Naples.

"This was a very irrational system which caused heavy losses," says Mr Annibaldi who believes *that it is totally impractical to ex*pect teams of workers to carry out efficiently a variety of tasks, which they are free to reallocate between themselves from day to day, on a moving assembly line. "Automation is the answer to job satisfaction," he adds bluntly.

But Fiat's objectives in the union negotiations go beyond scrapping the work group system. There is a need to harmonise the working day which, for a variety of reasons, is 55 minutes shorter at Alfa than at Fiat, although pay is slightly lower. Moreover, the time allowed for assembly operations is somewhat more generous than at Fiat plants, while basic factory organisation and flow of materials leave much scope for reform at Alfa, says Mr Annibaldi.

The Fiat director says that the only change made to the company's basic plans since acquiring Alfa in January is the decision to move a share of production of the Lancia Thema to Arese and the Autobianchi Y10 to Pomigliano from the end of this year. The reason, quite simply, is the need to raise throughput at the Alfa factories and, in the process, to take capacity pressure off Fiat plants with the manufacturing launch of the new Due model.

These transfers will bring with them modernisation and further au*tomation of the two plants – the re*quirement at Arese being rather more acute than at Pomigliano. The unions have been told that about 800 workers at each factory will be laid off later this year for up to 14 months to allow modernisation of their paint shops.

In addition, the 9,200-strong workforce (of which 2,700 are laid off) at Pomigliano will fall through natural wastage and early retirement to 8,000 in 1990. Production, in the meantime, will have doubled from 90,000 to 180,000 vehicles, which will be new designs of the Alfa 33 and 75.

At Arese, the workforce will fall from 9,700 (1,500 currently laid off) to around 7,000, while output will rise from about 100,000 to between 140,000 and 150,000 vehicles – the Lancia Thema, the new Alfa 164 due out in the autumn, and a new sports car.

Union reaction has ranged from passive acceptance of the Fiat case to downright hostility. This smouldered into flame last week among the national leadership of the Communist-led CGIL confederation and the CISL factory leadership at Arese. Both are deeply opposed to abandoning work groups and their resistance brought negotiations to a breaking point last Thursday.

Although Italy has long ceased to be a geographical collection of city-states, the difference in industrial culture between Turin and Milan is somewhat greater than the 140 km which divide them.

It is still too early to say whether the "Torinese" culture will be embraced by an Alfa workforce which is more highly unionised than the 25 per cent union membership at Fiat. Anxious to appear "modern" in their attitudes to change, the national leaderships of the CISL and UIL confederations certainly give every impression that they are ready to do it Fiat's way.

Much could depend, however, on whether the unions can be convinced by Fiat's promises to preserve jobs, and whether they can be correspondingly intimidated by the threat to employment implied by any failure of Fiat's strategy.

Brazilian components deal to be set up

THE FIAT GROUP is to launch a $135m car components joint venture with the Brazilian state of Minas Gerais under a deal which brings the Italian parent full ownership of Fiat Automoveis (Fiasa), its Brazilian car producing subsidiary.

In return for surrendering its 18 per cent holding in Fiasa, Minas Gerais is taking 49 per cent of the new components company, Betim Participacoes. According to Fiat, the company's capital will be around $135m and its labour force 3,600 people.

The Turin company said yesterday that the range of components to be produced at the new plant had not yet been decided. However, it is thought likely that some of its output will substitute for components produced in Italy by Fiat's Magneto Marelli subsidiary.

The purchase of the Minas Gerais holding in Fiasa for around $86m brings to an end a saga which began two years ago when the state government announced that its stake was up for sale. Reports at the time suggested that the asking price would be $450m.

Fiat's investment in the new company adds to an already significant investment in its Brazilian operations. In its first seven years production started in 1976, Fiasa's losses totalled $800m.

Since then, the company has shown promising growth with profits of L72bn ($55m) in 1985 and a surplus last year which is believed to be more than 30 per cent higher.

THE LEX COLUMN

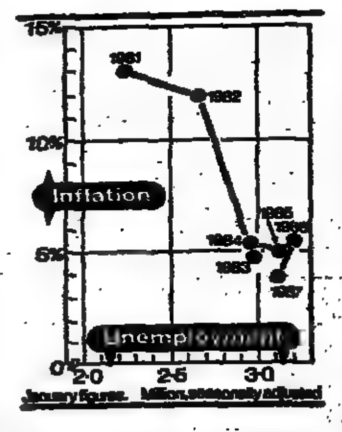
Penny plain, and tuppence coloured

Dull but smart; that is the City of London judgment on Mr Lawson's pre-election budget. Tuppence now and tuppence in hand delivers the requisite electoral bribe in time for a June election but holds back enough for a repeat performance should it be necessary next year. By choosing to divide the revenue spoils equally between reduction in the standard rate and holding down the public-sector borrowing requirement, the Chancellor has ensured that the gilt-edged market will press for yields well below 9 per cent. If bank base rates do not fall by a full point this morning, it can only be because the banks have decided to take a half-point now and look for a full point in a week's time. The knock-on into lower mortgage rates – hence low inflation – completes the monetary side of the election package.

After those years of attempting to constrain £M3, and subsequently to steer by its movements, the abandonment of broad money targeting may occasion the odd tear among hard-line monetarists. Yet the £M3 numbers had so long since succumbed to a mixture of Goodhart's law and the falling velocity of bank accounts that their formal retirement comes not a moment too soon. The fact that the foreign investors in gilts do not see the growth of broad money as a sign of currency *risk – or even of a sterling interest-*rate risk – shows how worthless a ritual it had become to set monetary targets which could not be hit. Abolition of the exchange control legislation is a more rhetorical flourish, whose only real purpose is to have a joke at the expense of Mr Hattersley.

The sole effect on equities was a reach-me-down enthusiasm that carried over from the fixed-interest markets. Even with the yield on the *All Share at an historically low* 3.4 per cent, the month-long surge in gilts has brought the yield gap well *within bounds of normality.* Aside from very specific concessions to the oil exploration sector, and the surprising lenience towards the companies which exploit human frailties – drink, tobacco and betting (on-course only, bad luck Sears and Ladbroke) – there was little adjustment for equity market-makers to make. They just marked the whole lot up, and then down again.

Those companies unlucky enough still to have large amounts of unutili-



fised ACT must be rejoicing at a new method of making their dividend payments less profligate of tax; *simply pile up enough* speculative gains in the equity bull market, and the resulting capital gains liability will take care of the problem. All that pressure to buy companies with UK earnings – never mind the industrial fit – need never have been there; Turner & Newall need not have bothered with AE. Unfortunately, those who saw the tax-efficiency of putting capital gains through the profit and loss account, to get taxed at the personal rate, *will no longer be able to play.* Well done Dixons, for getting in its Woolworth placing on Monday.

Cash flow planners who made a good thing for large new groups out of buying up small but elderly businesses, thus taking advantage of the easy pre-1985 payment terms on corporation tax – an extra 12 months' interest free – will have to look for a new loophole: tough luck, Habitat. And although tax experts in multinationals have already reconciled themselves to disconnection of the Delaware link, which had allowed double offset of interest payments against taxable profit, to have the plug pulled at this end as well as in the US does mark the *end of a minor industry.*

The anticlimactic air of this budget arose only in part from the accuracy with which the overall economic judgment had been discounted; brokers' economists caught the earliest train home for many a budget. There was also an absence of reforming prestidigitation, a consequence of the need for a short Finance Bill; no point in clogging the text with stuff that will end on the cutting-room floor.

But no Lawson budget would be complete without some measure – whether or not it needs legislative complexity – designed to clobber the financial sector. The ruling that banks and financial service companies will in future have to pick up the £300m tab for their Vattable inputs fills the bill nicely. And an end to the giving of huge *tax-free sums* on retirement will do no harm to anyone but fully depreciated spelling young men.

West Germany

And now for the bad news. Brave faces greeted Japan's worst GNP figures for 12 years but in West Germany the rout continues.

In Frankfurt even the "Aids effect" seems to work in reverse as Bayer and Allianz (the chemical company's main insurer) discovered yesterday following reports of legal claims from haemophiliacs. The weak domestically engineered rally of three weeks ago had already been well buried by the VW forex scandal which helped to send the Commerzbank index tumbling and underline just how fragile the German market can be.

Unfortunate timing, then, for the heaviest stream of share placings in the market's history. And particularly irksome for the biggest of the lot at Veba, the energy conglomerate, where the Government had been due to unload its 25.6 per cent *stake later this month.*

A significant delay in the Veba sale is probably wise – particularly as the *Government* is well placed to know if and when a reflationary boost to the markets may be coming.

However, quoted stocks in West Germany are not usually good barometers of reflation and in any case the pre-VW Hochtief placing was only achieved at a massive discount. So the Government may have to wait a long time to get back to its original hope of raising nearly DM 5bn.

Perhaps the expected delay has more mundane roots in an unenthusiastic institutional response despite Veba's remarkably attractive yield (especially for domestic investors). Or even in the Government's realisation that selling its remaining VW stake is going to be even more difficult unless Veba is a hit.

US urged to curb oil imports

By William Hall in Washington

RECENT RAPID growth in US oil imports and increasing long-term reliance on Middle Eastern oil supplies have potentially serious implications for US national security, according to a US Administration study.

Mr John Herrington, the US Energy Secretary, yesterday signalled that the US Administration's "benign neglect" of the domestic oil industry, *which has been thrown into* turmoil by the recent collapse in world oil prices, was over. He re*commended urgent action to curb* the rapid growth in imports and the "devastation" of the US oil industry.

*"The crisis in the domestic petro*leum industry, an industry that is critical to our energy security, is taking an enormous toll, and is creating serious problems for the future," said Mr Herrington in the foreword to a 350-page report on "Energy Security" which was released in Washington yesterday.

The report says employment in the US oil industry fell by 150,000 in 1986 and domestic oil production fell by 800,000 barrels a day and is expected to fall by another 400,000 b/d in 1987. Oil imports increased by almost 1m barrels a day to 5.3m *b/d in 1986 and are forecast to rise* to between 8m and 10m b/d, or at least 50 per cent of US consumption, by the early 1990.

"It is clear, based on these findings and this review, that initatives must be taken to strengthen the US oil and gas industry and reduce our growing dependence on insecure imported oil," said Mr Herrington, who noted that "the suddenness and severity of the oil market collapse has devastated significant segments of the *US petroleum in*dustry."

The US Administration came under fire last year for ignoring the impact of the collapse in world oil prices on the domestic industry and *important oil-producing states such* as Texas, Louisiana and Oklahoma.

Fairchild seeks buyout finance as Fujitsu deal falls through

BY LOUISE KEHOE IN SAN FRANCISCO

FAIRCHILD SEMICONDUCTOR of the US said yesterday that it would move quickly ahead with alternative financing plans following the cancellation of proposals for Fujitsu to acquire an 80 per cent stake from Schlumberger, Fairchild's parent company.

"We are shocked and extremely disappointed by news that the transaction has been cancelled due to political pressure," said Fairchild, "but we are moving ahead with *alternative plans."*

Fairchild's management is understood to be seeking financial backing for a leveraged buy-out and Mr Donald Brooks, president, met Schlumberger officials yesterday in New York to discuss the proposal.

No alternative offers to acquire Fairchild have been made, the company said, although it did not rule out consideration of any offer that might emerge.

Cancellation of the Fujitsu deal, which would have merged the two companies' US and European semiconductor operations, represents a major setback for Fairchild.

"The company became a pawn in a high-powered political game," analysts said yesterday.

Fujitsu and Schlumberger are un*derstood to have cancelled the pro*posed transaction following statements by Mr Malcolm Baldrige, US Commerce Secretary, that closely linked the deal to a supercomputer trade row between the US and Japan.

"Fujitsu is a major supercomputer manufacturer," Mr Baldrige pointed out. "The proposed Fairchild acquisition comes at a time when the Japanese have essentially told us that they cannot buy US supercomputers for government and university use."

Mr Baldrige also called for a Cabinet-level review of the acquisition.

US reports, later denied, that Mr Casper Weinberger, Defence Secretary had joined Mr Baldrige in seeking a Cabinet review of the deal on the basis of national security concern also appear to have strongly influenced the Japanese.

Fairchild is the second largest supplier of chips to US military contractors with military sales last year of $150m.

The Fujitsu-Fairchild merger was widely seen as a threat to the US semiconductor industry because it would have given *Fujitsu* access to key semiconductor distributors in the US who handle about 25 per cent of all US chip sales. To date, Japanese companies have been effectively excluded from the distributors by US firms which objected to sharing distributors with their Japanese competitors.

Manila to privatise oil company

By Richard Gourlay in Manila

THE Government-owned Philippine National Oil Corporation board has approved a plan for the combined sale of its marketing chain and refinery in what could be the country's first major privatisation since President Corazon Aquino came to power.

British Petroleum, Elf Aquitaine and Kuwait Petroleum are among the companies seriously interested in the purchase, *said Mr Edgardo* Defensor, Deputy Finance Secretary. BP confirmed that it was interested and was *waiting for* the Philippine Government to clarify its intentions.

Citicorp, acting as consultant to PNOC, earlier this month proposed that the Government sell 65 per cent of Petron, consisting of the Bataan Refining Corp and Petrophil Corp, the distribution arm. PNOC will retain 35 per cent of Petron, foreign investors will be allowed up to 40 per cent and the rest will be sold to Filipinos.

No single foreign investor would be allowed more than a 30 per cent holding in order that PNOC could *maintain its blocking minority* interest, Mr Defensor said.

Citicorp's plan will have to be approved by the *Government's* committee on privatisation when its chairman, Mr Jaime Ongpin, who is also Finance Secretary, returns from New York, where he is renegotiating the country's commercial debt.

Petron controls 900 retail outlets, a third of the country's gas stations, and has about a third of the country's $1bn a year retail market, Mr Defensor said. The refinery has a capacity of 155,000 barrels per day but has been *operating at only* 33 per cent capacity.

Citicorp has valued Petron's net assets at between $83m and $165m.

Valuation of earnings has been complicated by the past practice of passing profits from the marketing company to PNOC.

Industrial countries to limit use of aid in export credit grants

BY PETER MONTAGNON, WORLD TRADE EDITOR IN LONDON

MAJOR industrial countries yesterday agreed in principle on new rules designed to limit the use of aid in subsidising export credits to the developing world.

The agreement was announced by the Paris-based Organisation for Economic Co-operation and Development (OECD) after three countries – Japan, Austria and Switzerland – finally signalled their readiness to accept the proposals.

Mr John Coleman, the senior Canadian trade official who chaired the OECD discussions, said the new *rules would mark "significant* progress towards the elimination of subsidies on commercial export credits."

Under changes now due to come into effect from July, it will become more expensive for lending countries to subsidise export credits through an additional injection of aid.

The minimum permissible level *of aid in so-called "mixed-credits" is* to be increased in two stages from the current 25 per cent to 35 per cent by July next year. Changes in the way the cash value of the aid is calculated will make it harder for low-interest countries to meet this *minimum level, as their own low* cost of funds will be taken into account.

Japan, Austria and Switzerland delayed their acceptance of the deal until the last minute because the changes will make their aid efforts much more expensive. All three countries have imposed technical conditions on their acceptance, and these will still have to be discussed at a special implementation meeting at the OECD in mid-April.

Mr Coleman, however, said that the technical conditions "do not directly affect elements of the package."

Japan, for example, has asked that the new rules for calculating the value of aid in mixed credits should not be extended to general OECD calculations of the value of its official development assistance.

If they were, the reported overall value of Japanese development aid would drop sharply, which could be bad for its image in the developing world.

World Weather

		°C	°F			°C	°F			°C	°F			°C	°F
Ajaccio	F	13	55	Dubrovnik	–	–	–	Malta	F	15	[illegible]	Rhodes	S	12	54
Algiers	S	15	59	Edinburgh	C	9	48	Manchester	C	9	[illegible]	Rio de J'o	S	36	[illegible]
Amsterdam	C	4	39	Faro	S	17	63	Manila	–	–	–	Rome	S	19	[illegible]
Athens	C	12	54	Florence	S	4	39	Melbourne	R	33	91	Salzburg	Sn	–1	[illegible]
Bahrain	S	24	75	Frankfurt	Sn	0	32	Mexico City	C	25	77	San Francisco	S	11	[illegible]
Bangkok	S	36	97	Funchal	R	15	59	Miami	S	17	[illegible]	Seoul	C	13	[illegible]
Barcelona	S	12	54	Geneva	S	5	41	Milan	S	9	[illegible]	Singapore	C	31	[illegible]
Beirut	R	13	55	Gibraltar	–	–	–	Montreal	C	–5	23	Stockholm	C	–1	[illegible]
Belfast	C	10	50	Glasgow	R	9	48	Moscow	S	2	[illegible]	Strasbourg	Sn	3	37
Belgrade	F	1	34	Guernsey	R	7	45	Munich	Sn	–1	[illegible]	Sydney	S	24	[illegible]
Berlin	Sn	1	34	Helsinki	S	–3	27	Nairobi	F	27	81	Taipei	R	22	[illegible]
Biarritz	C	10	50	H. Kong	R	21	70	Naples	F	10	[illegible]	Tangier	F	17	[illegible]
Bombay	C	29	84	Innsbruck	F	2	36	Nassau	C	26	[illegible]	Tel Aviv	C	15	[illegible]
Bordeaux	C	10	50	Inverness	C	6	43	New Delhi	S	33	91	Tenerife	F	21	[illegible]
Brussels	R	5	41	Islamabad	C	24	75	New York	S	0	32	Tokyo	C	8	[illegible]
Budapest	F	5	41	Istanbul	C	4	39	Nice	C	11	52	Toronto	S	–5	[illegible]
B. Aires	S	23	73	Jakarta	R	33	91	Nicosia	R	16	61	Tunis	C	14	[illegible]
Cairo	S	19	66	Jersey	C	8	46	Oporto	S	15	[illegible]	Valencia	S	14	[illegible]
Cape Town	S	21	70	Jo'burg	C	23	73	Oslo	Sn	1	[illegible]	Venice	S	3	[illegible]
Caracas	C	27	81	Lima	S	26	79	Paris	C	9	[illegible]	Vienna	S	2	[illegible]
Casablanca	S	18	64	Lisbon	S	15	59	Peking	S	13	[illegible]	Warsaw	Sn	1	[illegible]
Chicago	S	–1	30	London	C	11	52	Prague	F	0	32	Washington	S	1	[illegible]
Cologne	Sl	1	34	Los Angeles	S	12	54	Reykjavik	F	–6	21	Zurich	–	–	–
Copenhagen	S	0	32	Luxembourg	Sn	0	32								
Corfu	F	9	48	Madrid	S	12	54								
Dallas	R	12	54	Majorca	F	15	59								
Dublin	R	10	50	Malaga	S	17	63								

Readings at mid-day yesterday.
C-Cloudy D-Drizzle F-Fair Fg-Fog H-Hail R-Rain S-Sun Sl-Sleet Sn-Snow T-Thunder

Budget paves way for early election

Continued from Page 1

Yesterday's tax reduction was ac*companied* by a £115m package of measures to help small companies, and by a string of changes to streamline corporation tax and to close loophole's in the payment of value added tax.

Mr Lawson also announced new tax incentives to encourage the spread of profit-related pay, and more favourable tax treatment for personal pensions.

Mr Lawson's package is likely to prompt a 1 percentage point cut in UK interest rates, with perhaps half of that coming as early as today. Conservative MPs said the budget was a good, if rather low-key springboard for the election, but opposition parties accused the Government of missing an opportunity of helping the unemployed.

From October, employees will be able to "top up" their occupational pension schemes with tax-free contributions to a plan of their choice. At the same time, the tax authorities will try to curb abuses of the system by restricting excessive tax relief for the most highly-paid.

The combination of tax cuts and a lower borrowing target in the budget reflect what Mr Lawson acknowledged as the "remarkable buoyancy" of non-oil tax receipts, particularly corporation tax.

The Treasury's receipts from those taxes more than offset a £7bn fall in North Sea revenues and the Government's decision last autumn to raise public spending in 1987/88 by nearly £5bn.

The decision to use more than half of the £5.6bn available in the budget to cut the public borrowing target for 1987/88 followed official figures indicating that borrowing in the current year will undershoot by £3bn its original £7bn target.

Lower bank base rates are likely to prompt a cut in home loan rates, providing an added boost to most people's finances even before the tax cuts take effect in the first pay packet after May 17.

The 2p reduction in the basic rate will add around £3 per week to the income of a man on average earnings.

SECTION II – COMPANIES AND MARKETS
FINANCIAL TIMES
Wednesday March 18 1987

Fresh pressure on AT&T over bid for CGCT

BY PAUL BETTS IN PARIS

AMERICAN Telephone and Telegraph (AT&T) and Philips of the Netherlands may be forced to modify the financial structure of the joint company they are forming with SAT, the French telecommunications group, to remain in the international bidding for CGCT, France's second-largest public telephone exchange manufacturer.

The AT&T-Philips partnership (APT) has long been seen as the frontrunner to gain control of CGCT. However, it has faced an increasingly strong challenge from Siemens of West Germany, Ericsson of Sweden and the Canadian Northern Telecom group.

Siemens was also given an added boost this week by the public statement of Mr Jacques Delors, president of the European Commission and a former French Finance Minister, in favour of a European solution for CGCT involving the West German group.

APT and SAT officials yesterday held a press conference in Paris to try to promote their bid for CGCT, due to be privatised by the end of next month. However, they were visibly embarrassed by questions on the structure of their proposed consortium bidding for CGCT.

Under the French Government's privatisation rules, the foreign candidates interested in CGCT must form a French-dominated consortium to ensure that their share of the telecommunications group does not exceed 20 per cent – the ceiling of foreign ownership for privatised French companies.

Ericsson and Siemens have formed joint ventures with Matra and Bouygues in the case of Ericsson, and Jeumont-Schneider in the case of Siemens, to ensure the foreign ownership rules are met.

APT has also formed such a grouping but doubts have been raised by French officials over the effective "Frenchness" of the consortium. Apart from APT and SAT, the grouping also includes the French Compagnie du Midi group and five French unit trusts owned by the Dutch-controlled Neuflize-Schlumberger-Mallet bank and by Morgan Guaranty. It is the French nature of the unit trusts which is questioned.

Mr François le Menestrel, managing director of SAT, acknowledged yesterday that the structure of the APT-SAT consortium was posing a problem. The Finance Ministry is expected to take a decision on this issue in the next 12 days. Mr le Menestrel suggested that APT and SAT would consider modifying the structure of the partnership.

APT and SAT sought to argue yesterday on the industrial merits of their proposal to acquire CGCT. They claimed that the APT 5ESS-PRX public digital switch was well suited to the needs of the French telecommunications administration, the Direction Générale des Télécommunications (DGT). CGCT will give the winner of the bidding battle initial access to 16 per cent of the French public switch market.

APT and SAT are also planning to invest more than FFr 240m ($39m) in CGCT's French research centre and manufacturing plant. Moreover, the two groups said there were synergies between APT and SAT in the field of transmissions – an annual market of FFr 7bn in France compared with FFr 7.6bn for public switching.

Mr Wim Huisman, vice-president of APT, also added that Philips and APT had concluded or envisaged finalising other agreements with French companies including the development of earth stations.

Taft family raises bid for TV network

By Our New York Staff

TAFT BROADCASTING, the Cincinnati-based television station operator which is prey to warring shareholder groups, yesterday received an improved $1.38bn offer from Mr Dudley Taft, a former president and the son of the company's founder.

Taft's stock price soared $3¼ to $156 in early trading yesterday, apparently in expectation of an auction for control of the heavily indebted broadcasting group.

Mr Taft is making his bid with other members of his family and a Providence, Rhode Island, investment firm called Narragansett Capital.

Last year he was ousted as president of Taft when Mr Robert Bass, a representative of the wealthy Bass family of Texas, built up a 20 per cent stake.

Since then the Bass group has increased its stake to 25 per cent and caused resentment among the Tafts, a distinguished Ohio family which has provided a US president, by disposing of five independent televisions stations and seeking to dispose of other most valuable assets.

Mr Carl Lindner, a Cincinnati investor who is Taft's second-largest shareholder after the Bass group, is apparently considering a bid. He is widely seen as holding the balance of power between the two families.

Last week, Taft's board rejected an offer of $145 a share from Mr Taft as inadequate. In a letter to the board yesterday, Mr Taft said his group would be prepared to offer shareholders "value in excess of $150 a share."

More international company news on Pages 32–34 and 47

Chris Sherwell looks at the strategy that has created a lucrative Australian empire

Adsteam finds a touchstone to success

FEW of the successful new Australian entrepreneurs now spreading their wings in the US and Europe enjoy a reputation as solid as that of Mr John Spalvins, head of the Adelaide Steamship group of companies.

Over the past decade, mostly under his guidance. Adsteam has achieved a 45 per cent annual growth in profits and seen market capitalisation grow from just under A$20m to more than A$1.1bn ($758.6m).

Apart from tugboat operations in 25 ports, the group has shaken off its traditional shipping-related activities. Instead, it has followed a strategy of aggressive diversification and investment to create a complex, but lucrative, empire.

At the centre is Mr Spalvins, a Latvian who came to Australia in 1949 at 13 years of age, unable to speak English. After 18 years at an electrical company he joined Adsteam in 1973, became a director in 1979 and managing director in 1981.

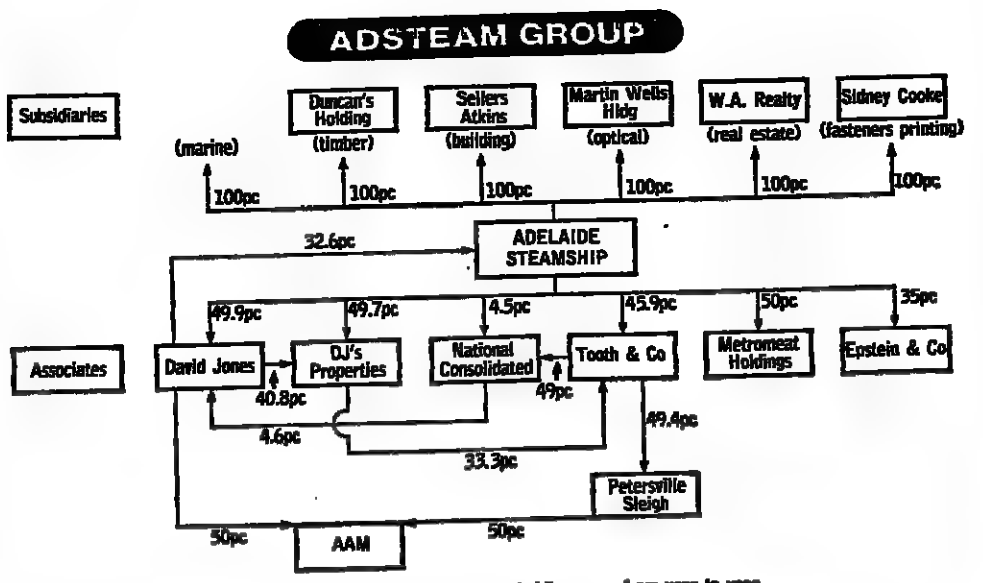
Adsteam has no simple structure. A foreign banker says he had "a devil of a job" convincing his bank's credit committee to lend money when it first saw the group's organisational chart.

Subsidiary companies which comprise Adsteam's core operations were built up in the late 1970s as the management began to diversify and expand the group.

Apart from marine activities, subsidiaries include Sellers Atkins and Duncan's Holdings, both involved in timber and building supplies, and Martin Wells Holdings, an optical goods manufacturer. The other main offshoots are Sidney Cooke, involved in fasteners and printing supplies, and W. A. Realty, a west Australian property operation.

These businesses generated A$260m in revenue in the year to June 1985. The bulk, A$215m, came from building supplies and printing activities.

The real insight into Adsteam, however, comes from a comparison of its revenue sources with the origins of its profit.



Among Adsteam's associates, precise shareholdings vary from year to year

Whereas the core businesses produced just A$25m in operating profit from A$260m in revenue, other investments – notably associates and, through them, the share markets – generated A$103m in profit from revenue of A$157m.

So it is Adsteam associates which attract investors' attention when they look at the group – and here the ownership structure becomes more complicated.

Associates include David Jones, the department store; Tooth and Co, which is involved in wines, food distribution, hotels and property development; and National Consolidated, a manufacturing company.

Abroad, the most important is AAM in the US, which is owned by David Jones and another associate, Petersville Sleigh.

Adsteam holds less than 50 per cent in each of the eight most important of its associates. As with AAM, some of these in turn hold similar stakes in each other.

The main interests of DJ's properties, for example, are its investments in Tooth and in a company called Clark Rubber. David Jones even has a 33 per cent cross holding in Adsteam.

Mr Spalvins says he has no intention of changing the successful formula of a small head office setting strict financial performance criteria and leaving individual teams to run their own operations

"It's a question of motivation," he says. "Managers and employees can fly their own flag, be proud of their heritage, have an identity." Rewards take the form of shares in the companies they run, many of which remain publicly quoted.

Complicating the structure further, Adsteam associates hold major portfolios of investments in listed and unlisted companies.

Stakes are not only held by one associate in another. They are also held in a wide range of other companies, public and non-public, both long and short-term.

Precise shareholdings among associates themselves vary from year to year. Such flexibility allows considerable juggling of assets in the cause of tax efficiency, which is another important driving force for group activities.

As for the wider range of investments, dividends are recorded as revenue while profits from disposals are generally – but not always – reported as extraordinary gains.

Some analysts, seeking an easy way to understand the company, liken it to an individual who borrows against his annual salary to invest in the equity market and then borrows again against the investment income, all the while aiming to minimise tax.

Certainly it is Adsteam's investment activity which has brought it to the UK, where interests include holdings in Coates Brothers, the printing ink manufacturer, and until recently in Blue Circle Industries, the UK's largest cement manufacturer.

With plenty of resources at its disposal – Adsteam has no shortage of banks knocking at its door – Mr Spalvins is instantly on the look-out for fresh opportunities.

Behind all this lies Mr Spalvins own expertise in the share markets.

The shift in Adsteam's approach came with the takeover of David Jones in 1980.

Motivating it, says Mr Spalvins, was a simple desire: "to make money." Profit has soared from A$54m to A$123m during the past five years. Although turnover for Adsteam and its subsidiaries has risen only from A$354m to A$417m, the aggregate turnover figure for the group and its associates is now put at A$3.6bn.

Revenue declined nearly 12 per cent to A$157m in the latest first half to December, but the results announced last Friday should show net earnings up 35 per cent to A$75m.

Typically, Mr Spalvin moves into a target company only on the basis on strict financial criteria – in particular where the share price is below the net tangible asset value per share – and a perception that the company can be turned round.

In the process he has acquired a reputation as one of Australia's most outstanding takeover operators.

Mr Spalvins likes to think of his small head office team as a catalyst, acting as a kind of bank and providing "three Ms" – money, materials and management – so that the successful associates can run themselves.

Debt at the end of 1985-86 was put at A$466m, up from A$297m the previous year. But Mr Spalvins says group liquidity is such that all money market borrowings can be repaid and committed unused bank facilities are in excess of A$1bn.

As for the group's immediate direction, Mr Spalvins is non-committal. Although constantly monitoring trends, his pessimistic views on Australia's high-flying share market are well known.

He is also gloomy about overall economic outlook – which is why action should be expected abroad rather than at home. If this is not in the US, where he has already established a firm bridgehead, then the most likely alternative is the UK, where he has become well known.

Australia ushers in new bank

By Terry Povey in London

THE BIRTH of a new kind of institution for Australia – what would be called an old-fashioned investment bank elsewhere – was yesterday being heralded with a blaze of publicity because of the galaxy of "star" names involved from the commercial and political world.

Putting up the A$50m (US$34m) initial capital for Whitlam Turnbull & Co on a 50-50 basis are Mr Larry Adler's FAI Insurance and Mr Kerry Packer's Consolidated Press Holdings.

Last night Mr Adler said there were no plans for the private bank, which will specialise in providing corporate advice and in making its own investments, to go public. "In the tradition of US merchant banking, privacy is very important," he said.

Mr Adler also said that this was FAI's third involvement in the banking world. It holds almost 10 per cent of Advance Bank in Australia and has built up a 14.6 per cent holding in Hill Samuel in the UK.

Whitlam Turnbull is to be run by three executives. One of these is Mr Nick Whitlam, son of Mr Gough Whitlam, a former Labor Prime Minister, who yesterday resigned from the post of managing director of the State Bank of New South Wales.

Another will be Mr Malcolm Turnbull, who at 32 has achieved fame as the lawyer for Mr Peter Wright, the former MI5 official whose-memoirs have recently been the subject of a court case in Australia. Mr Turnbull will leave his law practice to become a full-time executive at the bank.

The third member of the management team, also on a full-time basis, will be the 60-year old Mr Neville "Nefty" Wran QC, Labor premier of New South Wales for 10 years

SEC launches investigation into dealings by Icahn

BY JAMES BUCHAN IN NEW YORK

MR CARL ICAHN, chairman of Trans World Airlines and one of the most feared corporate raiders in the US, is under investigation by regulatory authorities for possible violations of securities laws.

The investigation by the Securities and Exchange Commission (SEC), which has been confirmed by Mr Icahn's office, for the first time formally embroils a corporate raider in Wall Street's widening scandal.

In a filing with the SEC to record its acquisition of 15 per cent of USAir, a regional carrier it bid for unsuccessfully, TWA said that the commission had issued a "formal order of investigation" against Mr Icahn.

The order, which authorises the SEC staff to subpoena witnesses and documents, was issued on November 12 last year, two days before Mr Ivan Boesky, a speculator in takeover stocks, stunned Wall Street by revealing the existence of a massive insider-trading ring.

According to the filing, the order empowered staff "to conduct a private investigation to determine whether any persons (Carl C. Icahn) have engaged in certain acts in violation of the Exchange Act... in connection with the acquisition


Mr Carl Icahn

of more than 5 per cent of the shares of certain unspecified issuers and the disposition of such shares."

Under US securities law, the purchase of 5 per cent of a company must be filed with the SEC.

The SEC said it was not its practice to confirm or deny orders of investigation. Lawyers familiar with SEC practice said such orders were only issued in the case of a focused investigation with a chance of progressing to civil proceedings.

So far the SEC investigation has led to charges against a number of investment bankers as well as admissions by others of insider trading in takeover stocks.

Mr Icahn, who made large profits from buying menacing blocks of stock in such companies as Uniroyal, B.F. Goodrich, Phillips and Gulf & Western and selling them back to management, said last November that he had never "had any 'business arrangements' or partnerships with Mr Boesky with respect to the securities of any company."

In a letter to TWA employees dated November 19, Mr Icahn said: "While it is true that the SEC has made certain inquiries, no allegations have been made against me by the SEC, and I have no reason to believe that any will be made."

Mr Icahn gained control of TWA at the beginning of 1986.

In the filing, TWA also announced it was dropping its $1.65bn bid for control of USAair. USAir had agreed to merge with Piedmont Aviation.

Japan Line plans to cut debt

BY YOKO SHIBATA IN TOKYO

JAPAN LINE, the financially troubled tanker operator, hopes for a Y7bn ($46m) capital increase by allocating 63.5m shares, to 11 financial institutions at a price of Y110 each. The company's capital will be boosted to Y51.5bn.

A total of 74 per cent of the new shares will be allotted to the Industrial Bank of Japan (IBJ), which has been financially supporting Japan Line since the mid-1970s.

The shipping company intends to use the proceeds from the capital increase to repay part of the Y52.8bn owed to Japanese financial institutions.

Earlier this month, IBJ and other banks put forward a rescue plan for Japan Line. The four major creditor banks will write off Y16bn of claims, Y15bn of which is owed to IBJ. About Y7bn of claims will be converted into new Japan Line shares to be held by the banks instead of being written off

Japan Line expects to report a pre-tax loss for the year of Y19.2bn and a net loss of Y3.7bn on sales of Y130.5bn. Its cumulative debts will rise to Y63.3bn.

However, the company will be able to wipe off excess liabilities, thanks to the writing down of liabilities and the planned capital increase.

Fecsa announces debt moratorium

FUERZAS ELECTRICAS de Cataluna (Fecsa), the electrical utility, whose financial troubles were revealed last month when its shares were suspended on the Madrid Stock Exchange, yesterday announced an indefinite moratorium on its principal repayments as part of a debt rescheduling operation, writes Tom Burns in Madrid.

The Barcelona-based utility, sixth-largest in Spain, said it was starting negotiations with its national and international creditors and that it would continue to pay interest, "punctually and with all normality."

Mitsubishi Chemical edges ahead

BY OUR TOKYO STAFF

MITSUBISHI CHEMICAL, Japan's largest integrated chemical company, posted pre-tax profits of Y24.06bn ($159m) for the fiscal year to January 1987, up 1.2 per cent on a year before. Net profits were Y7.01bn, up 3 per cent. It intends to keep its per-share dividend unchanged at Y5 for the year.

Mitsubishi Chemical attributed the earnings gain to a sharp improvement in its balance on financial items, which more than offset a double-digit decline in operating profits.

Overall sales plunged 22.2 per cent to Y630bn, due to softened market price of petrochemical and chemical products, sluggish demand for mainline cokes from domestic steelmakers and reduced exports caused by the yen's appreciation. However, its balance on financial items improved by about Y6.5bn, thanks to falling interest rates and low-cost financing through the issue of domestic convertible bonds.

For the current fiscal year to January 1988, the group projects its sales at Y610bn.

The company expects the cokes market to bottom out and firm demand for plastics and farm-related materials. Its new divisions, including information and electronic equipment, compound materials and pharmaceuticals are expected to fare well.

Its non-operating profits are expected to improve further thanks to lower interest rates and smaller borrowings. Its pre-tax profits are expected to stay at the previous year's level.

INTL. COMPANIES AND FINANCE

Bernard Simon on how a Canadian metals group is reacting to price falls

Falconbridge tightens its belt

AS MR BILL JAMES vigorously rubs his yellow marker on a pie chart in the annual report which Falconbridge will publish later this week, the chairman and chief executive of the Canadian base-metals producer laments that the company can no longer afford to tell its story in full colour.

The austere annual report is one sign of how tightly Falconbridge has pulled in its belt to cope with depressed nickel, zinc and copper prices. But even without full colour, the chart in question vividly encapsulates the recent events which may have saved the Toronto-based company from an even worse predicament.

The chart shows that nickel contributed only 26 per cent of revenues from Falconbridge's mines in 1986, compared with 54 per cent the previous year. Copper's share jumped from 12 per cent to 31 per cent and zinc from only 1 per cent to 17 per cent.

The shifting pattern stems mainly from Falconbridge's bold C$615m (US$460m) acquisition in January 1986 of a controlling interest in Kidd Creek Mines, the northern Ontario zinc, copper and gold producer whose sprawling metallurgical plant is among the most modern in North America.

Critics think that Falconbridge paid too much for Kidd Creek. The purchase is the main reason why Falconbridge's debt has ballooned from C$284m at the end of 1985 to C$1.2bn now. Interest charges will reach C$80m this year.

But, at a time when Falconbridge is losing heavily on its nickel business, Kidd Creek's low-cost operations are a godsend. Cash flow from the new subsidiary covered all Falconbridge's finance charges last year. Even at present depressed zinc and copper prices, Kidd Creek is generating a little extra for its parent's coffers.

The problem is that the wait may be a long one. Falconbridge itself predicts that world nickel supplies will exceed consumption by 80m lbs this year, more than the entire output from its main cluster of mines near Sudbury, north of Toronto.

Based on the argument that prices will not recover until more capacity is taken off the market, Mr James predicts that only "a good drop in prices will make people come to their senses."

Falconbridge argues that it has done its bit by announcing a 10-week shutdown of its Sudbury operations later this year.

Mr James, a blunt geologist with a hearty disdain for corporate protocol, is thus preparing to administer more of the cost-cutting medicine he has prescribed in big doses at Falconbridge since taking over as chief executive four years ago.

Mr James says that "you can squeeze (costs) forever." The big question is how much harder he can squeeze without being forced to accept the capacity cuts which Falconbridge wants to avoid or selling off assets which it wants to keep.

The workforce at the Sudbury operations has already shrunk from 4,000 in 1982 to 2,250. Another 350 layoffs were announced at the end of last year.

The cutbacks at head office in Toronto have been equally severe. Only 152 jobs are left after dovetailing Kidd Creek's 100-strong corporate office with the 132 people at Falconbridge. The two companies' marketing and exploration departments have been combined.

Falconbridge has sold all its peripheral businesses. It raised C$86m in 1986 from the sale of interests in three gold mines and a 50 per cent stake in a Quebec copper producer. It recently found another US$75m by selling a 49 per cent holding in the South African platinum producer, Western Platinum, to the British conglomerate, Lonrho.

Proceeds from last year's disposals turned a C$15.5m loss into a bottom-line profit of C$70.3m on revenues of C$1.15bn. Earnings in 1985 were C$38.5m from revenues of C$890m. According to Mr James, "we're fundamentally down to core assets now." These consist of the Sudbury mines, a large nickel refinery at Kristiansand, Norway, a ferronickel facility in the Dominican Republic, Kidd Creek, and Indusmin, a North American producer of non-metallic industrial minerals and specialised castings.

Among the remaining assets, the problem child is the Sudbury complex, which consists of six nickel/copper mines, two concentrators and a smelter.

Despite the cost-cutting of the past few years, Sudbury is not competitive in the prevailing over-supplied market. A widely dispersed orebody keeps development costs high. In addition, Falconbridge spends an average of C$40,000 a year on each of its unionised Sudbury workers, compared with C$10,000 on each (non-unionised) Dominican worker and C$3,000 per worker at two small gold mines the company owns in Zimbabwe.

According to Mr James, "at these metal prices, Sudbury is not that attractive." But he adds that "we're determined to make Sudbury go in the long haul and we're determined to cut costs significantly."

INTERNATIONAL CAPITAL MARKETS and COMPANIES

Floaters stage moderate rally on bargain hunting

BY CLARE PEARSON

FLOATING RATE notes (FRNs) staged a moderate rally in the Eurobond market yesterday, after suffering sharp falls in the last few days as investors started to pick up paper at lower prices.

Buying was focused mainly on sovereign issues, with prices improving by more than a point in some cases as dealers rushed to cover short positions. Subordinated issues for banks were still unpopular.

Most of the houses that had closed down their FRN market making operations on Monday were back yesterday, although dealing sizes were still generally small.

Goldman Sachs International led a $200m five-year 7¼ per cent collateralised issue for Meritor, the US savings bank, which is expected to receive a triple-A rating from Moody's. The lead-manager said the issue was designed to appeal to bank as well as traditional fixed rate investors.

Priced at 101¼, the issue provided an initial yield of 70 basis points over comparable US Treasury bonds. It was bid at a discount equivalent to its 1¼ per cent fees.

Warburg Securities led a A$220m five year 9¼ per cent issue for Swedish Export Credit. The issue incorporates the novel features of investors' options to receive principal and coupon payments partly in D-Marks. The deal, which was pre-placed, was designed to attract investors who liked the yields available in the Australian dollar sector, but were nervous of the currency.

The investor can receive 25 per cent of his coupon payments, and 50 per cent of principal, in D-Marks at an exchange rate of DM 1 to A$1.24. The issue is priced at 101¼.

The Canadian dollar sector continued firm, and UBS (Securities) led an 8¼ per cent 5½-year issue for GMAC Canada, guaranteed by the parent. The C$100m issue, priced at 101¼, traded within its 1¼ per cent fees.

Bank of Tokyo International led a C$80m seven-year 8¼ per cent issue for the City of Bergen. The issue was priced at 101¼.

The Euroyen market continued strong, and Nomura International led a Y20bn five-year issue for Toronto Dominion Bank. The 4¾ per cent issue was priced at 101¾. It was quoted at a bid price of 99¾, slightly outside its total fees.

In the D-Mark market, prices eased by about ¼ point in continuing small turnover. Deutsche Bank led a DM 400m 10-year 6¼ per cent issue for the European Investment Bank. Priced at 100¼, it was bid within the 1¾ per cent fees, although dealers said its call option after seven years at 100¾ might prove unpopular with investors.

In Switzerland, prices eased slightly in moderately increased trading volume.

Credit Suisse led a SFr 50m five-year 4¾ per cent issue for Kayaba Industry, the Japanese hydraulic equipment maker. It was priced at 100¼, and may be called from 1989 at 101¼, and then at declining premiums.

Commercial paper issue for Australian bank

COMMONWEALTH BANK of Australia is preparing a A$500m commercial paper facility aimed at establishing a new Australian dollar-denominated paper market in Asia, Reuter reports from Sydney.

Mr Graham Hand, a senior executive of the bank, said the facility was the first in a programme modelled on the US commercial paper market.

The bank is putting together a dealing panel and will begin discussing the facility with potential investors in Hong Kong, Singapore and Tokyo

● A note issuance facility for Elders IXL, launched in Asia earlier this month by Westpac, has been halved in size to A$100m and terms of the facility have been improved.

TSE confirms commission cuts for convertibles

BY YOKO SHIBATA IN TOKYO

THE TOKYO Stock Exchange formally decided yesterday to cut brokers' commissions on convertible bonds with effect from April 20.

Under the new system, the basis for computing commissions will be changed from the aggregate face value to the contract value. Commission rates for convertibles will be lower than those for equities, though higher than those for bonds, according to TSE officials.

Calculated on the basis of the average transaction value in 1985-86, the forthcoming rate cut is expected to reduce the securities industry's revenues from commissions on convertible trading by 25 per cent or about Y80bn ($527m).

The plan calls for dividing trades of between Y30m and Y1bn into five brackets. At present, a uniform rate of 0.6 per cent is applied to deals over Y30m. Commission on trades of convertibles of Y1m will be trimmed to 1 per cent from 1.2 per cent, while the rate on trades of over Y1bn will be lowered to 0.3 per cent or less from 0.6 per cent.

The TSE had intended to cut commission on convertibles in step with the proposed increase in the securities transaction tax, which forms part of the tax reform system that the Government wants to implement in fiscal 1987, beginning next month.

It dropped this plan because of the growing possibility that the Diet (parliament) will delay approval of the tax reform Bill.

Danes react calmly to S & P downrating

By Hilary Barnes in Copenhagen

DENMARK'S downgrading by Standard & Poor's, the US credit rating agency, from AA plus to AA, was taken calmly by ministers yesterday.

"There is no reason to dramatise things. The change is a subtle one," said Mr Palle Simonsen, Finance Minister.

"Last time we were downrated, the terms for our borrowing were almost better than before," commented Mr Anders Andersen, Economy Minister.

Mr Erik Hoffmeyer, governor of the National Bank, said the downgrading reflected S & P's disappointment that the current external account had not improved. "I share that disappointment," he said. The tough fiscal measures of last year had still not taken full effect, he added, so that S & P may have underrated the improvement which was on the way.

The two factors behind S & P's downgrading are last year's DKr 34.5bn current account deficit, equal to 5.2 per cent of gross domestic product, and the collective wage agreements for the next two years, which were concluded in January.

The 1986 current account deficit took the net foreign debt to 39.5 per cent of the GDP. This works out at about $7,300 per capita, and by this measure Denmark is probably the most heavily indebted country in the world.

Mr Lar Tybjaerg, the Finance Ministry official responsible for foreign borrowing, said there was no indication in the terms of Denmark's most recent borrowings, a Y130bn and a $500m Eurobond issue, that the market has changed its view of Denmark, "although we have seen some criticism of our borrowing activity in the international press."

The criticism has reflected comments by bankers that Denmark, which receives many offers, plays off the banks against one another and thereby shaves the return to lenders.

Mr Tybjaerg agreed, however, that over the longer term the downrating could have an adverse effect on the terms on which Denmark can borrow if it fails to get its current account under better control.

Denmark was in the market for DKr 50bn ($7.22bn) in 1986, of which a substantial amount went on pre-payment of earlier loans. The net borrowing was about DKr 22bn.

This year the Finance Ministry's tentative programme is for gross borrowing of about DKr35bn.

The central bank yesterday lowered its money market intervention rate from 11 to 10½ per cent. The rate was raised from 9½ to 12½ per cent in January when currency began to flow out in anticipation of the EMS realignment. Funds were slow to return and the rate has only now been brought back to 10½ per cent.

Fuji bank chief defends low capital ratios

By Our Financial Staff

MR YOSHIRO ARAKI, president of Fuji Bank and current chairman of the Federation of Bankers' Associations of Japan, yesterday attacked efforts to bring the low capital ratios of Japanese banks up to the levels of those in the US and the UK.

He said, however, that Japanese institutions would try their best to follow the new rules introduced by the US-UK agreement signed last January.

Mr Araki told a press conference in Tokyo that it was "rude" for foreigners to discuss the issue purely in terms of figures since financial practices differed widely between countries. Banks, he said, should follow the rules of countries where they do business; Japanese banks were not violating local regulations in any country.

According to figures available to bank analysts, the current ratio of paid-up capital and reserves to liabilities stands at 2-3 per cent for Japanese banks against 5.5 per cent for US banks.

Talks between the US, the UK and Japan on the issue ought to begin by defining the ratio of net worth to liabilities, Mr Araki said.

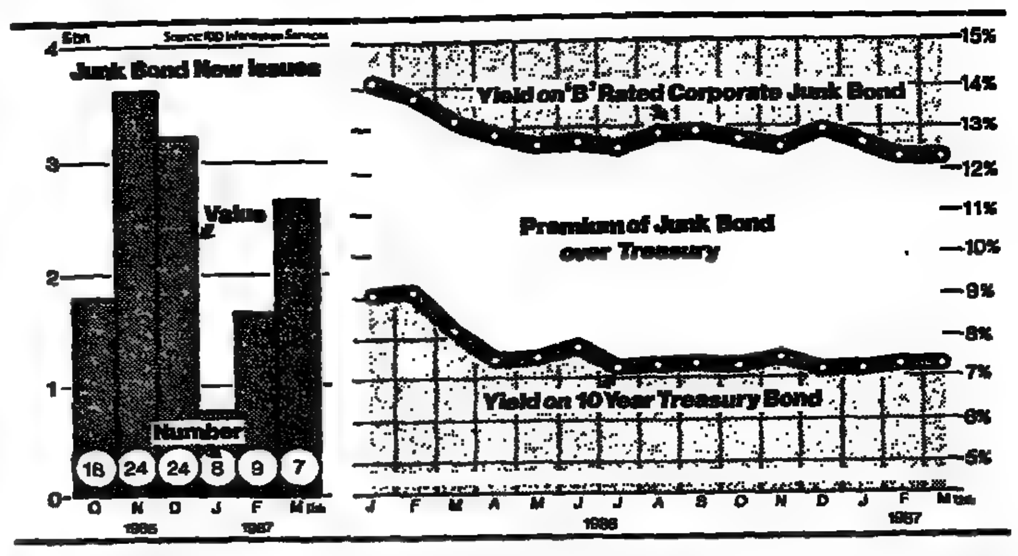
Such a definition would presumably show Japanese institutions in a much more favourable light by taking account of their large unreported holdings of securities.

● Japanese securities houses have again asked the Ministry of Finance to consider introducing auctions of 10-year government bonds, Reuter reports from Tokyo.

The Japanese securities houses may also allow foreign brokers to underwrite some 10-year bonds with effect from next month.

High-yield paper flourishes despite Boesky, Roderick Oram reports

US investors stick by junk bonds



THE US JUNK bond market has rarely looked healthier, as investors eagerly mop up a flood of jumbo-sized new issues only four months after their confidence in the high yielding corporate paper was shaken briefly by the Boesky insider trading scandal.

The $100bn secondary market has also been enjoying a brisk rally since the beginning of the year, driven by strong demand from institutions and individuals seeking higher returns than they can get in the dull Treasury market.

Yet the warm glow induced by high yields and rising prices has failed to thaw out junk bonds' most trenchant critics. Like lone bears in the stock markets, they warn that junk bonds are performing true to the top of the cycle.

"At or near the top, the marginal investment banker, reaching for fees, shakes hands with the marginal investor reaching for yield," Mr James Grant wrote recently in Grant's Interest Rate Observer. He scathingly attacked the thin margins and low quality of some recent deals. In some prospectuses, issuing companies admit that the numbers will work only if they pull off exceedingly ambitious corporate restructurings.

Investors have taken comfort from junk bonds' low historical default rate of about 1.5 per cent. Yet that was doubled to 3 per cent last year by a series of bankruptcies in the steel, energy and transportation industries, and there may be worse to come.

About 5.5 per cent of junk bonds analysed in a recent study were "particularly vulnerable" to default because of the parlous state of their issuers' balance sheets. The survey of issues by 500 companies totalling $75bn — three-quarters of the total junk bond market — was commissioned by Fortune magazine.

Despite these potential difficulties, it is almost universally accepted that high yield bonds, as junk bonds' proponents prefer to call them, are a vital and legitimate source of funds for the large majority of US corporations, which are financially sound but do not meet the strict criteria for investment grade ratings.

Analysts believe that the growing legions of junk bond investors will cope with the market's uncertainties by drawing more heavily on credit analysis of the issuers and on dealers' recommendations.

The market's growing maturity is shown by its sheer size, its attractions for a growing range of institutional investors and the widening circle of successful underwriters, compared with the early 1980s, when Drexel Burnham Lambert was pioneering the business.

Drexel Burnham's dominant position was already being challenged by competitors envious of its success when the Boesky affair hit last November. Rival firms hoped that close scrutiny by the judicial and regulatory authorities of the relationship between Drexel's junk bond operation, corporate raiders who use junk bonds to finance takeovers and arbitrageurs like Mr Boesky, who speculate in takeover stocks, would work to their advantage.

But Drexel, fighting back with massive advertising campaigns in which long lists of corporate clients extolled its skills, has been far harder to dislodge than they expected.

It remains the largest single underwriter, with its slippage in market share more a reflection of the market's maturity than a loss of its effectiveness. Two weeks ago, for example, it sold two issues for Holiday Inns, the motel group, totalling $1.4bn.

None the less, the junk bond market will almost inevitably have to weather further shocks at some point as the investigations take their course. The trauma should again be short-lived, analysts believe, because the inherent attraction of most of the bonds would soon draw investors back.

When the Boesky scandal focussed attention on junk bonds in late November and early December, yields on single B grade paper jumped about by half a percentage point to 13 per cent, though they then fell rapidly to present levels of around 12.20 per cent.

A charateristic of the rally has been a growing gradation of yields as investors have searched for better than average returns. "Some of the second and third-tier issues by lesser known names have been scrutinised for value by investors," said Mr Robert Levine, head of high yield research at Kidder Peabody.

One of the best performing sectors of the junk bond market has been issues for leveraged buyouts of companies, a technique in which a takeover is financed by borrowing against the company's assets. First Boston's high yield index showed a total return of 15.6 per cent last year but the return on LBOs in the index was 26.4 per cent.

"Generally, LBOs look their worst on day one with all the uncertainties facing the new company," says Mr Andrew Morris of First Boston's high yield research department. "No one knows how it will perform, so the bonds are priced accordingly."

If investors are growing more sophisticated, the primary motivation remains unchanged. They like junk bonds because of their premium over yields on Treasuries and investment grade corporate bonds. While the yield on, say a 10-year Treasury has fallen from 9 per cent in January last year to 7.20 per cent today, junk bonds have maintained an average 5 point premium. They continue to yield 3 to 4 points over investment grade corporate debt.

The appetite savings and loans associations, for example, have shown for the bonds has prompted Washington regulators to study whether rules should specify the maximum percentage junk bonds should occupy in the associations' portfolios. A recent survey of 15 large insurance companies by Morgan Stanley, the investment dealer, found that they planned to invest an additional $20bn in junk bonds.

The supply of new junk bonds averaged $2.9bn a month last year, peaking at $3.63bn in November and $3.23bn in December as companies scrambled to finance a welter of takeovers, restructurings and buyouts before the old tax regime expired.

The dramatic drop to $756m in January, partly because a number of ambitious takeover bids were dropped, helped fuel the secondary market rally. But even with volume picking up to $1.61bn in February and to more than $2.6bn in the first half of this month, according to figures from IDD Information Services, underwriters are confident that investor demand will continue to match supply.

FT INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Closing prices on March 17

US DOLLAR STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Abbey National 7⅛ 92	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	7.25
A/S Eksportfinans 7⅛ 95	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	7.46
Australia Com. 11 95	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	8.11
Austria 7⅛ 97	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
BP Capital 9⅛ 94	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	7.25
British Telecom 7⅛ 96	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Campbell Soup 10½ 95	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Canada 9 96	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Canadian Pac. 10¾ 95	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
CCCE 7⅛ 91	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
CNCA 7⅛ 91	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Citicorp 8⅛ 93	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Credit Lyonnais 9 91	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Credit National 9⅛ 93	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Credit National 7⅛ 91	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Denmark Kingdom 7⅛ 92	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Denmark Kingdom 8⅛ 91	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
EEC 7 91	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
EEC 8⅛ 96	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
EEC 7⅛ 93	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
EIB 7⅛ 93 A	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
EIB 7⅛ 93 B	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Eurofima 7⅛ 91	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Finland 7⅛ 97	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Finland 7½ 93	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Ford Motor Cred. 10½ 91	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Ford Motor Cred. 11⅛ 90	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Gen. Elec. Cred. 10⅛ 00	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

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INTERNATIONAL COMPANIES and FINANCE

PLACING OF MINORITY HOLDING SPARKS RENEWED CRITICISM

Mexico sells third bank stake

BY DAVID GARDNER IN MEXICO CITY

THE MEXICAN Government yesterday sold off minority stakes in a third state-owned bank, watched by critics who saw last month's share sale in Banamex and Bancomer – the country's two major commercial banks – as at least partly an exercise in political patronage.

Banca Serfin, the country's third-largest commercial bank, is selling off share certificates – known as Certificados de Aportacion Patrimonial (CAPs) – worth just over 27bn pesos ($25.4m) or 34 per cent of its paid-up capital.

In line with earlier sales, Serfin's placing is in the form of a new capital issue, and it is understood that the stock is being distributed almost wholly among employees and clients.

The Banamex and Bancomer issues – which fulfilled a pledge by the Government to privatise 34 per cent of bank stocks after the commercial banking system was expropriated in 1982 – sparked a public controversy when the price of their CAPs shot up as soon as they began trading.

Partly in response to this, the Serfin issue is being priced at 8,000 pesos a share, an historic price/earnings ratio of two, or effective price to net worth ratio of 56 per cent.

This contrasts with the Bancomer and Banamex issues, which were priced at around 1.5 times net earnings, for an effective price to net worth ratio of about 39 per cent.

Share certificates in these two banks, which each hold about a quarter of all commercial banking assets, are being priced in the secondary market at a p/e of four and five, respectively. This compares with a current market average of 18 times historic earnings and for the select few who managed to buy the CAPs, signifies gains of between 200 and 300 per cent since issue.

Serfin, which is half the size, has clearly been priced higher and can expect to trade at a lower p/e ratio. But even if it rises to around 3.5 – as it shows every sign of doing – investors can expect a 75 per cent profit on the first day of trading.

A further difference with last month's issue is that Serfin is only issuing CAPs, whereas Bancomer and Banamex issued packages made up of one share certificate and two convertible bonds.

The latter are convertible into CAPs on predetermined redemption dates at market price minus a discount of 25 per cent – which implies that the two banks still have part of their capital expansion still to come in.

Advanced Micro plans new chip

By Louise Kehoe
In San Francisco

ADVANCED MICRO Devices, the battered US semiconductor manufacturer, which reported losses of $130m over the past 18 months, plans to build a micro which, it claims, will outperform any currently available.

"The AM29000, 32-bit microprocessor is the most significant product introduced by advanced micro devices in the company's 17-year history," Mr Tony Holbrook, president, said. "We are staking our reputation on this chip."

Announcing the new chip in San Francisco on Monday, AMD conceded it had yet to make a working sample but said it would have the chip in production by early next year.

AMD aims to persuade manufacturers of engineering workstations to adopt its chip for their next generation products. Officials say the design has been greeted "with great interest" by companies including Apple and IBM, which currently use Motorola and Intel microprocessors.

Although a major supplier of microprocessors and other complex chips, Silicon Valley-based AMD has not previously designed its microprocessors. AMD manufactures micros under licence from neighbouring Intel.

The market for high-performance microprocessors is projected to total $200m by the end of the decade. Peripheral chips that work beside the microprocessor "brain" chip will bring the market value to more than $1bn, AMD reckons.

Gencorp margins suffer pricing competition

By Our Financial Staff

GENCORP, the fifth largest US tyre company, has reported a fall in first-quarter net earnings to $17m, or 77 cents a share, from $19m, or 84 cents. Sales in the quarter, which ended February 28, rose to $650m from $614m.

The tyre segment reported an operating profit of $9m, down from $12m a year ago, on flat sales. Profit margins were aggravated by competitive pricing and costs associated with consolidation of manufacturing operations.

GenCorp said the adoption of a new pension accounting standard during the first quarter lowered pension costs $1.3m after taxes. But this was offset by an increase in estimated pension costs related to pension plan amendments adopted at the start of the current year.

Swiss bank expects to raise SFr 50m through rights issue

BY WILLIAM DULLFORCE IN GENEVA

BANCA della Svizzera Italiana (BSI), the Lugano-based Swiss bank, plans to raise about SFr 50m ($32.5m) in new share capital through a 1-for-12 rights issue at a price three times par value, Mr Giorgio Ghiringhelli, the managing director, said yesterday.

He put the value to shareholders of the subscription right at SFr 140 per bearer share and SFr 45 per registered share.

Shareholders will also be asked to approve the issue of 200,000 new participation certificates each of nominal SFr 100 without subscription rights. Existing participation certificates of nominal SFr 500 are to be split into five certificates of nominal SFr 100.

BSI, the biggest bank in the Italian-speaking canton of Ticino and one of the six largest publicly quoted banks in Switzerland, is increasing its payout to shareholders after booking a 15.2 per cent increase in net earnings to SFr 42m on the 1986 account. Irving Trust of New York holds 40 per cent of the capital and almost 25 per cent of the BSI voting rights.

The board proposes to raise the dividend from 13.5 per cent to 14 per cent, made up of an ordinary dividend of 12 per cent and an extraordinary dividend raised to 2 per cent from last year's 1.5 per cent. The payout will total SFr 28.9m

Last year BSI's assets grew by 4.8 per cent to SFr 6.5bn, and shareholders' equity remained in step with a 4.8 per cent advance to SFr 492m.

The slower growth in the balance sheet compared with the annual average of 12 per cent recorded in 1980-85 is attributed to the weakness of the dollar. Without the dollar, depreciation growth would have been 14 per cent, the bank said.

BSI, weighted more towards investment banking than the other big Swiss "universal" banks, relies heavily on commission earnings, which climbed last year by 20 per cent to SFr 133m.

Net interest income rose 3.4 per cent to SFr 83.1m, held back by a 38 per cent decline in earnings on money market operations, while trading in foreign exchange and precious metals produced a marginally lower income of SFr 26.4m.

DFDS bounces back for first time in 6 years

By Hilary Barnes in Copenhagen

DFDS, the Danish shipping company, made its first operating profit last year since 1981 with earnings of DKr 97m ($14m), which was much better than expected.

The company, which dominates North Sea traffic between Scandinavia, Hamburg and the UK, improved after-tax earnings from DKr 34m to DKr 61m while pre-tax earnings improved from a loss of DKr 24m to a profit of DKr 70m. No dividend will be paid.

The equity-to-assets ratio, which dipped to only 6 per cent in 1983, increased last year from 20 to 29 per cent, which reflected a revaluation of the company's headquarter offices in Copenhagen to 70 per cent of the estimated market value

Sales were down slightly from DKr 3.49bn to DKr 3.34bn.

The preliminary statements said the group's divisions – passenger transport, land transport, liners and Tor Line – improved performance last year.

For the first time for several years no ships were sold, and three were added to the fleet owned by the company, including one which from April 1 will be used to increase passenger capacity on the Hamburg-Harwich route.

A positive result is expected again in 1987, but it may be rather lower than in 1986, the statement said.

STRAUSS

A memorial service will be held for Julius Strauss at the Plaisterers Hall, 1 London Wall, London EC2, at 12.00 midday on Monday, 30th March 1987

MANAGEMENT

EDITED BY CHRISTOPHER LORENZ

Terry Dodsworth and David Thomas describe the differing fortunes of two divisions of Thorn EMI, the embattled UK electricals group

A glitch on the road to recovery

IVOR OWEN, a dapper 56-year-old Liverpudlian, accepted one of Thorn EMI's biggest managerial problem areas three years ago when he took charge of the consumer and commercial division, the manufacturing group responsible for lighting and all kinds of domestic and commercial appliances.

Last week, with the job of shaking these operations back into a reasonable rate of profitability only half complete, he abruptly resigned. He was going, he said, because of a dispute over how to tackle the division's "complex and varied" problems—a polite way of indicating his disenchantment with a veto by Colin Southgate, Thorn's managing director, of sweeping plans for new investment in the business.

While details of these investment plans are not known, the aggressive approach advocated by Owen clearly goes right to the heart of the dilemma facing Thorn in this division and throughout the group.

For top management, looking at a range of options for expenditure in the company as a whole, there have to be questions about whether the group should invest in this sector or in other divisions. What kind of returns can Thorn expect to make on manufacturing in the UK in a sector which is so wide open to foreign competition? How long would it take to gear up competitive production, and would the group generate better margins in some of its other businesses? Would it make more sense to rationalise lighting and appliance manufacturing by buying in some products and selling off some production activities no longer needed?

A measure of the division's difficulties can be gauged from its performance last year. Its constituent parts embrace some of the dominant companies in their sectors, including Thorn lighting, with more than 50 per cent of the UK market and a strong overseas presence, Kenwood kitchen appliances, one of the group's few genuinely international businesses, and commercial and domestic appliances. The kitchen products—cookers, refrigerators and washing machines sold under the Tricity, Bendix, Moffat and Parkinson Cowan brands—have up to 35 per cent of UK sales in some sectors.

Yet with the addition of the Ferguson television manufacturing company (the way Thorn presents its accounts), these activities generated a trading profit of only £29m on sales of £1bn for the year to March 1986—a return on sales of less than 3 per cent. Lighting accounted for the main part of these profits—about £17m—while the appliance division, employing about 5,000 with sales of £200m, only just broke even.

In the last three years, and at an accelerated pace since a new top management team was installed at Thorn 18 months ago, Owen had developed a strategy for tackling these problems based on three main lines of attack.

The first objective was to reorganise the management into much smaller reporting groups, each run by an executive who had a more clearly defined responsibility for its performance.

In lighting, for example, the aim has been to break down a complex activity with a wide range of products — Thorn makes both light bulbs and fittings—into discrete areas "responsible for differentiating their products," as Owen put it.

"Each is in a different market place and exposed to different competitive conditions — different research and development requirements."

Second, Owen was trying to shift both the lighting and consumer products divisions towards a much greater emphasis on product design and marketing—in his words "selling aspirations, rather than to electricity board showrooms."

The third element of Owen's strategy was new investment, the point on which he parted company with senior management.

The problem is not yet too acute in lighting, which has continued to innovate successfully, and the Kenwood kitchen appliance business has been kept up-to-date. But large parts of the domestic appliance activities are in poor shape, operating from old-fashioned plants, and making out-of-date products at uncompetitive prices.

Without a revamp, these operations will not be able to maintain the pace against expanding multinationals such as the Swedish Electrolux, or the cheap products of East European manufacturers which are beginning to nibble away at the bottom end of the market.

These weaknesses are particularly acute in the refrigeration division, which Thorn executives cite frequently as an example of a business which needs a complete overhaul — from the fabric of its production facilities to the design of its products.

Although Thorn has given no clues as to how it might tackle the problems after Owen's departure, the launch of a review of the business under Southgate suggests certain lines of attack. He appears to want a faster improvement than has been achieved or was promised under the investment plan presented by Owen; and he may have been unconvinced that a broad-based spending programme, maintaining the present range of manufacturing facilities, was the right approach. Both he and Sir Graham Wilkins, Thorn's chairman, have made it clear in the past that they are not committed to manufacturing if it makes more sense to buy in products.

The biggest question mark hangs over domestic appliances—although there are some promising segments within the business. Thorn's main opportunity in this sector lies in the cooker operations, partly because it has already pushed through a £10m investment in a show-piece new cooker plant at Spennymore, near Durham, and partly because it has a mix of technology which is well adapted to today's market needs. The market trend in the UK is towards shorter replacement cycles and higher quality products with mixed power sources—and Thorn has the advantage of manufacturing for both gas and electricity.

The group also has a strong new technology on which to capitalise—halogen heat, or "cooking by light," a development of the Thorn central laboratories. Halogen uses a tungsten halogen filament for its heat source to give an instant response, so that users have the controllability of gas with the cleanability of electricity, an approach that has won instant success in terms of both sales and pricing: it has given Thorn a cooker it can sell for £800 against a top-of-the-range product priced at £470 only 18 months ago.

Among options to be considered for the refrigerator and microwave oven businesses, are links with European multinationals (Thorn could brand their products, or vice-versa), or even disposal.

Owen himself argued the investment case to the end. "I think," he said recently, "that the opportunities for investment in the UK are better now than at any time since the last war. We are designing better products, our labour costs are competitive, and currency factors have moved in our direction."

Radio Rentals (left) is the UK market leader in rentals—not only radios but dishwashers now too; the development of the halogen cooker has taken Thorn upmarket for the first time

Two high street giants undergo a cultural upheaval

JOHN BARNES, managing director of Thorn EMI's high street electronics operations, was deeply unimpressed by what he found when he joined the company late in 1985.

Little consumer research, poor marketing; a failure to experiment; badly trained staff with little sense of purpose — these are just some of the horrors he had to cope with.

Barnes, a high flyer in his 30s, was not used to this. He had spent all his career with marketing-driven US companies — most recently as managing director of Kentucky Fried Chicken in the UK, and before that as general manager of Pepsi in Canada.

"I was staggered by the poverty of systems and lack of controls and by the failure to invest in people within Thorn EMI," Barnes remembers.

Yet Thorn's high street businesses could hardly be considered an unimportant part of its empire. In the last full year, rental and retail contributed almost two thirds of the group's operating profits (£97.6m out of £154m) and more than a quarter of turnover (£883.8m out of £3.32bn).

Thorn's rental brands, with about 1,200 outlets altogether, include Radio Rentals, the UK market leader. Its retail side takes in the Rumbelows chain, with more than 40 outlets, and the HMV music chain with almost 50 outlets.

Barnes set about changing the culture of his new patch, which he says was production — not marketing — led.

In this he was following the strategy devised by his boss, Dr Jim Maxmin, the Thorn board member in charge of rental and retail. Maxmin, like Barnes, had a marketing background; before moving to Thorn three years ago, he had headed Volvo's sales efforts in the UK.

One of the first moves under the new strategy was to find out more about the 3.5m people who use Thorn's shops, particularly those who choose to rent, the core of Thorn's high street business.

"In the past, to spend £20,000 on consumer research was considered a lot," Barnes says with incredulity.

The research told Thorn three key facts about the rental market, partly surprising and partly well known.

First, contrary to popular wisdom, renting is not peculiar to poor people.

"There is no skew down market. Our rental customers form a very broad social picture. There is an upper income slug to which we can market selectively," Barnes says.

Second, the market has been in slow decline, with more people giving up renting each year than turning to it.

Yet, third, within this declining total, there is a large group of people who continue to rent over a long period.

Thorn's new rental strategy evolved out of these three facts. There was no point going all out for growth. But there was sense in trying both to persuade existing customers to rent more products and to slow the pace at which customers stopped renting.

Thorn believes that customer perceptions are changing — which will make these goals more achievable. Upper and middle income consumers are more likely to rent because they want to trade in equipment quickly as each new generation comes along — "techno-fear," as Maxmin calls it.

But realising the goals, in Thorn's view, meant dumping the assumption that there was one homogenous rental or high street market. Great differentiation became the order of the day.

An early decision was not to merge any of Thorn's high street chains, such as Radio Rentals and DER. Merging the brands had some backers within the company because of the large cost savings it would have yielded. But, counters Barnes, "it would have been a crass piece of marketing."

Next came the decision to distinguish more sharply between renting and retailing. Rumbelows' rental business was transferred to Thorn's rental brands, leaving it to concentrate on retailing. This course is the opposite of that being followed by Granada, one of Thorn's main high street competitors, which has moved to a mixed retail-and-rental approach.

Thorn is also experimenting with new products. "We had no product testing. There seemed to be a mentality that TV and video were the last rental products," Barnes says.

Many of Thorn's new ideas are aimed up-market—at the yuppie renter. Some have been tried out first in Thorn's rental shops overseas. Dishwashers, car telephones, hi-fi systems, sunbeds and mobile discotheques have now been introduced in selected rental shops in the UK.

Preliminary results confirm that there is no single rental market: "In Leeds, the renting of dishwashers is going very well. It's not going very well in Swindon," Barnes says.

Awareness of regional variations has meant giving local management greater control. "DER in Scotland is completely different from DER in London, because the demographics are completely different. We had to organise our companies so management was much closer to the shops," Barnes explains.

This meant cutting out layers of management and in many cases appointing new people, with a bias towards managers with marketing and operations experience. This, plus much stricter stock control, has produced significant savings: the workforce of the high street business has been cut by a fifth in the past three years to 14,500.

However, Barnes wants to protect the shops from job-shedding. "We don't have enough people in the shops. The shops were regarded as the lowest of the low. They weren't properly equipped and the staff were underpaid and untrained."

Thorn's front-line rental staff are now being trained in ways of retaining customers once they have made the initial decision to rent. About a fifth of customers found their initial contact with Thorn unsatisfactory in some way, Barnes says. "The reason we lose these customers is our own inadequacies."

Customers are also being offered more flexible terms, such as rental periods, in the drive to keep them loyal.

Most observers are optimistic about Thorn's strategy. "Thorn is adopting an imaginative approach and has a reasonable chance of succeeding," says John Sanderson, an analyst with County Securities.

However, analysts also say there is still much to be done before the new culture seeps into every nook and cranny of Thorn's high street empire, a point which Maxmin accepts.

So what hard evidence is there that the strategy is working?

Thorn reels off a number of answers. Its share of the TV rental market is increasing. Rumbelows has already generated enough new retail business to make up for the rental customers it surrendered. Outside observers believe rental profits could be up by as much as a quarter this year.

But Barnes is perhaps most proud of the fact that his total number of rental customers looks set to be stable this year. At least for the moment, Thorn has halted the decline of its rental sector.

NEW COMPANY WILL HAVE SALES OF £125M AND NET ASSETS OF £37M

Garnar agrees merger with Pittard

BY NIKKI TAIT

Garnar Booth, the leather manufacturer which finally escaped a £20m bid from Strong & Fisher last month, yesterday announced that it has agreed merger terms with a third leather company, Pittard Group.

With shares in Yeovil-based Pittard up 7p to 303p yesterday, the terms value Garnar at £25.2m. The move creates company with sales of some £125m and net assets of about £37m. Garnar shares added 21p to 243p.

Mr John Fooks, deputy chairman of Garnar, said the merger idea stemmed partly *from* the monopolies reference into the earlier Strong bid. Strong pulled out in February, shortly before the Monopolies Commission was due to complete its findings.

"It was an instructive exercise," Mr Fooks said yesterday. "We talked to various parties during the reference and learnt even more about our own business."

The two companies, both *family* businesses stretching back to the 19th century, have known each other well for years. Pittard was rumoured as a white knight for Garnar when it was *fighting the Strong* bid and it voiced concern to the Office of Fair Trading and Monopolies Commission about the Strong-Garnar link-up.

Yesterday, both Garnar and Pittard rejected suggestions that a *similar* monopolies reference might follow from yesterday's deal.

Pittard's £43m sales are split between gloving *leather* (55 per cent), shoe upper leather (35 per cent) and clothing leather (10 per cent). The bulk of its raw material is either hides or imported hair sheepskins. The previous monopoly queries arose over concentration in the *domestic lambskin business.*

Garnar Booth's business is more widely spread, spanning hide and skin markets, fellmongeries, tanneries and in terms of finished product chamois, skivers which go towards shoe *leather and other goods,* and clothing leather.

Yesterday, Pittard *said that* Garnar sourcing could prove useful in its own business while its own technical and marketing expertise could help develop the latter's products. Little overlap is seen and the two businesses will continue to run separately for the first year, *although Garnar directors* will join the Pittard board.

Garnar Booth *shareholders* are offered 17 Pittard shares for every 20 held. There is no cash alternative. The terms will increase Pittard's issued share capital by almost 70 per cent.

Yesterday, Pittard was unable to contact Mr Richard Strong, *managing director of Strong* and Fisher, which still holds a 16.4 per cent stake in Garnar. If Strong accepted the terms, it would hold about 7 per cent.

No one else at Strong was prepared to comment on the *merger announcement beyond* saying that Strong had no immediate intention of *disposing* of its stake.

Pittard last month reported a 56 per cent increase in pre-tax profits to £4.19m in 1986. Garnar Booth announced a £624,000 loss in the first six *months of 1986-87,* but yesterday predicted that the full year *figure to end-January* would be not less than £1.5m before tax.

Hepworth sells 4.9% stake in Birmid

By Mike Smith

Hepworth Ceramic Holdings, *the building materials* company, yesterday signalled that it had abandoned hopes for a merger with Birmid Qualcast by selling its 4.9 per cent stake in the group.

The disposal of the 3.25m *shares in the lawnmowers to* foundries company immediately fuelled speculation that Hepworth was interested in TI's domestic appliances division.

Mr Sinclair Thomson, group chief executive, ran the TI white goods arm before *moving to Hepworth last year.* He isc bound to have considered purchasing it *following* TI's decision last month to sell.

Hepworth sold its Birmid stake for about 228p a share, a considerable premium to the purchase price. On the day that Birmid revealed Hepworth's interest in its equity last month, the price stood at 187p.

At one stage Hepworth acquired another 5 per cent *stake but* the Takeover Panel ordered this to be sold because the company's broker Hoare Govett had unintentionally broken the takeover code by buying the shares from its parent company's market making arm. Mr Alan Emson, Birmid's finance director, said yesterday he was not surprised at Hepworth's *decision following* his *company's* rejection of a merger. Birmid had never seen the industrial logic of a union.

Shares in Birmid closed at 228p, down 14p. None the less, the company has clearly benefited from the City's close attention during the last month. The shares have risen *more than* 20 per cent since Hepworth's first approach.

Mr Emson said there *was* no question of the company standing still. The rise in the share price had put "one or two things into frame which six months ago would have been impossible."

Shares in Hepworth rose 6½p to 220½p.

Nigerian currency losses hit Paterson Zochonis

Paterson Zochonis, a holding company with interests in the manufacture of toiletries which includes Cussons Imperial Leather among its brands, reported *pre-tax* profits down from £20.87m to £16.3m in the *six months to November* 30 1986. Group turnover dropped from £120.4m to £103.3m.

Mr John Zochonis, chairman, said that the profits were in line with company expectations and that the fall was the result of a drop in sterling terms of the profits of the company's Nigerian subsidiaries—though in currency terms these had been higher.

He added that the Nigerian economic adjustment programme which had started in September 1986 had resulted in a major movement in the value of the Nigerian currency and the liberalisation of imports. He said that the former had had an adverse effect on the *interim figures but* that the latter, which had allowed improved availability of production materials and spare parts, should benefit all group manufacturing units there.

Mr Zochonis reported further improvement in the results of all the *Cussons group* companies; depressed conditions in some areas where the company's Interparco subsidiary operated; and improvements by Minerva in *Greece.* He added that Cussons had bought a small soap factory in Thailand in order to establish a direct presence there.

He believed that profits in the second half of the year would be comparable *with* those of the second half last year.

Investment income rose from £4.4m to £5.3m; interest payable dropped from £3.2m to £2.9m; and the share of profits from related companies tumbled from £7m to £2.9m.

Tax charges fell from £9.5m *to £6.4m and earnings* per share worked through at 19.96p, down from 22.58p last *time. Minority* interests were £16,000 (£302,000) and attributable profits fell from £11.1m to £9.9m.

The company declared an interim dividend of 1.75p, up from 1.65p last time.

● comment

Paterson Zochonis's interims brought few surprises to a market well prepared for the sharp downturn in the Nigerian contribution: indeed, although the *figures were slightly* worse than some had forecast, the shares put on 13p to 358p. Perhaps this is not so surprising in a bull market obsessed with seekout out *any remaining* undervalued stocks, for with only a slight shortfall from last year's £42.3m in sight for the current year, PZ's prospective p/e multiple looks unusually low at 8. The main reason for the discount to the wider market is, of course, the unreliability of those Nigerian earnings, yet the Cussons operation is performing well and investment income provides a solid earnings base. PZ is not among the most exciting overseas traders, but given its asset backing of nearly £3 a share in *cash and* gilts alone, the difference between that figure and the market price does not seem an exorbitant sum to pay for the possibility of continued growth at Cussons and the hope of a stimulus to Nigerian profits in a post devaluation economy.

Bremner boss thwarts move to unseat him

By Philip Coggan

RARELY CAN an extraordinary general meeting have deserved the title as much as yesterday's gathering of shareholders in Bremner, the property and department store group.

Dissident shareholders were *attempting* to unseat Mr James Rowland-Jones, a veteran *corporate battler,* but once again he proved too *nimble for his opponents.*

On Friday, he obtained an *injunction in the Court of* Sessions in Edinburgh barring the holders of *Malaga* Investments from voting for the motion.

Malaga, which had a 25 per cent stake in the company, represented the group of investors led by City and West*minster Financial,* the group with which Bremner nearly merged *last year.*

The discussions broke up in acrimony and since then shareholders have been bombarded by vituperative circulars from both parties. Each has since served the other with a writ for libel.

At the EGM, after a TV film had been shown explaining how Mr Rowland-Jones had ousted the *previous* chairman, Mr Michael Black, last year, Mr Andrew Greystoke, of CWF, proposed that the meeting be adjourned until his group could contest the action barring it from voting.

However, as was inevitable *since the Malaga voters* were disenfranchised, the motion was *defeated and Mr Rowland-*Jones lived to fight another day.

CWF intends to call a further EGM if it wins its Scottish court battle.

Laing Properties rises 14%

BY ALICE RAWSTHORN

Laing Properties, the Watford-based property investment group, yesterday unveiled a 14 per cent rise in pre-tax revenue profits to £17.7m for 1986 despite adverse exchange rate movements during the year.

The company revalued its *property* at the end of the year—traditionally it does so every *three years.* This revealed an increase in value of £20.4m, thereby *increasing the diluted* net assets per share to 395p (343p). Currency fluctuations erased £1.9m from the value of the property.

Laing has recently adopted a more active approach to trading *property. During the year* it rationalised its holdings in commercial property in the US. *It* is using the proceeds of these disposals to diversify into the US residential and retirement sectors.

Also *in* the US, the company is approaching the final stages of the development of business parks and is concluding partnership arrangements for further commercial *development* north of Atlanta. In Canada, Laing *is* concerned with retail developments and is now engaged in three shopping centre projects. In the UK, the Harrow shopping centre should be completed towards the end of the year and work has begun on a mixed scheme at Borehamwood.

Revenue profits after tax rose to £13.4m (£11.6m) during the year. Taxed profits per share increased to 23.7p (20.7p) and capital surpluses per share to 41.8p (36.9p). The total return per share has grown to 65.5p *from a debit of 16.2p.* The board proposes to pay a final dividend *of 4.5p (4p) producing a total* of 8p (7p).

● comment

Laing's approach to property valuation is so idiosyncratic that most analysts prefer their owns sums to the company's and, having made an addition here, *an allowance there, suspect* that the "real" net asset value may be a rather more respectable 430p or 450p a share. Respectable is a fitting epithet for Laing's profits growth too. Currencies permitting, the City expects £20m or so this year and a net dividend of *at least 9p. A more active* trading policy should find *favour* and the *Canadian* business *is still deemed successful;* even *if* the property market in the sunbelt, its chief territory in the US, is problematic and the company's performance in the UK has been less than sparkling. But the Laing share price, lulke those *of most of* the *property sector,* has little to do with funda*mentals, and everything* with bid rumours. In recent weeks the market has judged a bid to be likely and the shares have soared, yesterday less likely and they fell by 13p to 376p.

Chloride sells Pakistan arm for £2.57m

Chloride, the battery group, has sold its 55 per cent stake in Chloride Pakistan for £2.57m in cash. It will use the proceeds to reduce borrowings.

The holding was bought by a company owned by a family trust of Mr Nurdin Jivraj, chairman of Rushlake Holdings *and deputy chairman of* London Park Hotels, its UK-quoted subsidiary.

Chloride Pakistan reported pre-tax profits equivalent to £1.4m and contributed £442,000 to the UK company's attributable earnings in the year ended March 31 1986.

KENMARE OIL Exploration has concluded negotiations for the acquisition of *Irish Marine* Oil on a 2-for-3 share exchange basis, subject to shareholders' approval at an EGM. Irish Marine is currently active on 11 exploration licences in the Republic of Ireland.

Hanson Trust to sell Finlays for £17m

BY LISA WOOD

Hanson Trust announced yesterday it was selling its Finlays confectionery, tobacco and newsagents business for a cash consideration of about £16.9m *to Finlays, a newly formed* public company.

The chain of 281 shops spread throughout the country was acquired by Hanson in its hostile *take-over of* Imperial Group last April. Since then other elements of the business which have been sold include Courage, the brewing business, and the Anchor Hotels and Happy Eater roadside restaurants.

Hanson has been negotiating the sale of its Finlays business for some time with Mr *Arundbhai Patel, of A. J. Patel* & Co, chartered accountants. Mr *Patel* is the chairman of the newly formed Finlays company. Recently a management buyout offered an alternative bid for the business.

Hanson Trust said it normally welcomed management buyouts but added: "It would have been wrong to have turned our back on Mr Patel with whom we had *virtually reached agreement."*

The chain of shops have an annual turnover of about £80m a year. Since being in Hanson's ownership the outlets have not *made a trading profit.* In the 11 months to September 1985 they made a trading *loss* of £1m.

Staff within the business had expressed fears to Hanson Trust over job security should the business be sold. Mr Patel, chairman of Finlays, said he intended to continue and de*velop the business and made* specific assurances concerning the *future* employment of the 1,800 branch staff. All head office and management staff have been informed by letter that they will be seen separately by the new management.

Last year Hanson sold 46 of *the Finlays outlets to CTN UK,* which now trades as CTN Retail. Some 16 *outlets* which trade as Corner's grocery shops have not been included in the current sale but Hanson said a number of parties were interested in buying them.

Lex Service *starts promisingly*

In the annual accounts of Lex Service, Mr Trevor Chinn, chairman and chief executive, said the year had opened promisingly for the automotive distribution and leasing businesses which were all showing profits higher than last year.

Markets for the group's electronic component distribution companies were showing some small signs of *improvement, with suppliers* indicating increased order levels both in the *US* and Europe, the chairman stated.

He added that the action taken to reduce losses in those businesses where they occurred and to control costs throughout the electronics *group should enable Lex to* be profitable in the existing market conditions.

KLP upsurge

Mr John Laurence, chairman of KLP group, Britain's largest sales promotion and marketing services company, told the agm that there had been "an upsurge in business" in the current financial year.

New contracts worth £6m had been won and the first ever contract awarded by the Electricity Council for the services of a sales promotion company had also been secured.

Cambridge scrip

Cambridge Instruments, the *scientific* equipment manufacturer which plans to join the *stock market later this month,* has obtained approval from shareholders for a one-for-one scrip issue and for an increase in its authorised share capital to accommodate the new shares to be offered under the flotation. The extraordinary general meeting also approved preferential allocations to small shareholders of 200 shares.

QUEENS Moat Houses has agreed to buy Prince Rupert Hotel which runs the hotel of the same name in Shrewsbury, Salop. The consideration is £2.86m less book value of the net current liabilities of the company at completion date. The deal will be settled by a *combination of cash and shares* issued to the vendor.

First Leisure

Lord Delfont, chairman of First Leisure Corporation, *told the agm that the present* year had started with an encouraging set of results. He had every confidence that this would continue and said prospects pointed to a record year.

All winter units had begun the year well

Expanding Expamet nears £6m

Expamet International, fast-expanding supplier of components, products and services to the industrial building and security markets, picked up after a *static opening half year and for* 1986 as a whole increased its profits by 32 per cent at the *pre-tax level.*

Furthermore, the group made a good start to 1987 showing strong order books in many of its companies.

The directors said yesterday that action taken in the original businesses was beginning to show results and added that 1987 would also benefit from a full year's contribution of the 1986 *acquisitions.*

They looked to the future with a "great deal" of confidence.

For the 1986 year turnover pushed ahead from £52.46m to £69.78m and with all sectors *showing increases* pre-tax profits rose to £5.77m, an improvement *of £1.39m over the* reported figures of the previous year.

The profits by division broke down as to building £1.86m (£1.49m), industrial £2.1m (£1.66m) and security £1.82m (£1.23m).

The directors said that in view *of* the number and scale of the acquisitions the overall performance and improved balance of activity were encouraging.

Shareholders are to receive a total dividend of 6.75p (5.9p) net on the enlarged capital via a final of 4.05p. The dividend *is as forecast* last June at the time of the acquisition of Metal *Industries and the £9.2m rights* issue to fund the purchase.

Tax for 1986 accounted for £2.03m (£1.52m) and extraordinary items for £107,000 (nil).

Earnings worked through 1.96p higher at 14.23p per 25p share.

● comment

Expamet *has come in just ahead* of expectations thanks to £1.4m from acquisitions—which leaves the distinct impression that continuing businesses were flat. However, it was IBC, which lived up to its lossmaking record with a £280,000 debit, and a £½m fall at Expanded *Metal that held the core performance.* As some of this represented costs associated with a management consultancy review of the company's operations, the hope is that this year will at least see a decent multiple of the fee being earned. Net debt at the year-end was *£6.4m, up from £2.8m* in December 1985. Expamet's board is unlikely to feel comfortable with a level of borrowings any higher than this — suggesting that 1987 will in the main be a year of consolidation in which purchases will be kept within the limits set by cash generation, *about £3m last year. For the* year pre-tax profits should reach £8m which puts the shares at 281p on a prospective p/e of almost 14 following the strong run up to these results.

Coloroll to dispose of its packaging division

BY RALPH ATKINS

Coloroll, wallpaper and home fashion group, is to sell its packaging division.

The group says the division, which made a pre-tax profit of £300,000 on a turnover of £1.92m in the six months to September 1986, does not fit in with its development strategy. *Net assets of the division are* valued at £1m.

Coloroll said that it was faced with a choice between investing in the increasingly competitive packaging business or concentrating on its wallpaper and home fashion businesses.

The packaging division *accounts for less than 5 per* cent of group's sales.

Coloroll *has* made a series of acquisitions since its flotation on the *Stock Exchange* in 1985. Two weeks ago it announced the acquisition of Wallco, a Florida-based manufacturer and distributor of wallcoverings, for $14.5m (£9.35m).

INOCO HAS reached agreement *with associate Monaco Group* Fund SA to purchase portfolio of commercial properties having gross value of some £13m. Acquisition to be financed as to £6m via issue of 15m new Inoco ordinaries and balance by mortgage finance. Final consideration to be determined on *basis of independent valuation.* Purchase will increase Inoco's net income by some £600,000 per annum.

Black Horse moves into Wiltshire

Black Horse Agencies, the estate agency subsidiary of *Lloyds Bank,* has expanded *into* Wiltshire by acquiring Tilley & *Noade,* a firm with nine offices. This brings BHA's total to 338 in 34 counties.

BHA also reported that it made a pre-tax profit of £5m last year, *representing a return* of 25 per cent on capital invested.

House sales increased 54 per cent to 38,417, approaching a value of £2bn. Turnover increased by 60 per cent to £47m.

Mr Peter Constable, chief executive, said the company had a short-term objective of 500 offices, and was expanding the number with financial services departments

BOARD MEETINGS

TODAY

Interims—Armatage Brothers, CALA, *International City, Logica, Pochins,* George Scholes, Sirdar, Television Southwest.

Finals—Antler, Ault and Wiborg, Assam Dooars, Charles Barker, CPI Holdings, DRG, Walter Duncan and Goodricke, Jones and Shipman, Hugh *Mackay Carpets, Morgan Grenfell,* Norank Systems, Tod, Turner and Newall, United Biscuits, Waterford Glass, Waterford Wedgwood, Watmoughs, Western Dooars Tea.

FUTURE DATES

Interims—

Alva *Investment Trust*	*Mar 24*
Arbuthnot Govt. Securities Tst	Mar 19
Bailey Ben	Mar 24
Briket	Mar 24

Finals—

Acorn *Computer*	*Mar 30*
Asset Trust	Mar 26
Barker (Charles)	*Mar 25*
Bridon	Mar 25
Britannia Arrow	Mar 25
CCA Galleries	Mar 30
Church & Co	Mar 19
Coates Brothers	*Apr 2*
Comcap	Mar 26
Home Counties Newspapers	Apr 7
Jacobs (John I.)	Mar 26
Jones (A.)	Mar 19
Manders	Mar 30
Metal Closures	Mar 25
Pleasurama	*Mar 19*
Second City Investment	Mar 27
Wolstenholme Rink	Mar 24

DIVIDENDS ANNOUNCED

	Current payment	Date of payment	Corresponding div	Total for year	Total last year
BM Group ....int	†0.9	—	0.66	—	1.65
Dunton Group ....int	‡0.2	—	0.16	—	0.4
Expamet	†4.05	—	3.55	6.75	5.9
Kellock Trust	†0.1	May 22	0.15	0.1	0.15
Laing Properties	4.5	—	4	8	7
Paterson Zochonis int	1.75	Apr 30	1.65	—	6.5
Rotunda	‡1	May 8	—	1	—
Sintrom	1.45	—	1.45	2.2	2.2
Systems Designers	0.35	—	0.3	0.55	0.45

Dividends shown pence per share net except where otherwise stated. * Equivalent after allowing for scrip issue. † On capital increased by rights and/or acquisition issues. ‡ USM stock. § Unquoted stock.

Systems Designers profit cut by contract delays

Systems Designers, the UK software producer in which British Aerospace holds a 23 per cent stake, produced pre-tax profits down 38.7 per cent to £4.48m, in line with the warning it issued in October.

Turnover for the year to December 31, 1986, rose from £55m to £61.5m. The company said Ministry of Defence delays in awarding contracts were a main reason for the sharp reduction of its forecast.

Other problems included the record level of investment in new products and markets, as well as slower initial sales of the company's new Ada products.

Earlier this month BAe raised its 14.9 per cent stake in SD to 23 per cent. It has ruled out a full bid but said that it might take its stake up to 29.9 per cent.

Development expenditure will be reduced in 1987, said Mr Philip Swinstead, chairman. Action had been taken to balance resources with the current level of demand in the defence area, and Ada products were showing a most satisfactory growth in sales.

Prospects for 1987 were much better than the previous year, he said, with good market demand and benefits accruing from investment programmes.

SD purchased two software products for $4.6m (£2.9m) from SEI Corporation on December 31, 1986. The figures include no contribution from this acquisition.

Taxation took £1.67m (£2.77m). An extraordinary debit of £211,000 was provision for closure costs of a branch office.

Earnings per share stood at 2.45p, down from the 1985 figure of 4p which was adjusted to reflect the issue of 1.125m new ordinary shares in March 1986 to satisfy $2m of the deferred consideration for Warrington Associates Inc.

Directors are recommending a final dividend of 0.35p (0.3p), making a 0.55p (0.45p) total.

• comment

It is an old story. High-technology company has ambitious plans, gears up for growth and then falls at on its face when the growth fails to appear. Systems Designers had already given the market advance warning of its bad news so the shares were unchanged yesterday at 98p. But the market is not so much supporting the Systems management — although cutbacks in deveopment expenditure can probably restore some respectability to the bottom line this year—but in the BAe stake which everyone expects to go up to the maximum 29 per cent level. The real growth prospects — like ADA — remain a couple of years away. That means that the market will be focussing on on BAe's strategy rather than the prospective p/e which is 25 assuming pre-tax profits of £7m.

ICI chief gets 26% pay boost to £393,000

By Tony Jackson

SIR JOHN Harvey-Jones, who retires as chairman of ICI at the end of this month, had a 26 per cent pay increase last year to £393,068. Net profits for the group rose by 9 per cent.

In the chairman's statement in the 1986 annual report, published yesterday, Sir John said that the group's commodity businesses, fertiliser excepted, made considerable progress towards acceptable levels of profitability last year.

He said that the performance of these businesses reinforced the belief that they could be "a robust group of profit-earning businesses, responsive to changing circumstances." Despite a sharp fall in profits from agriculture, Sir John said, "this is an area in which we are determined to continue to serve and prosper."

Growth in consumer and speciality products had continued, with sales up by 60 per cent over the past four years and profits by 89 per cent. Internationalisation of the group's business had also continued, and sales growth in the US last year, including acquisitions, had been 24 per cent, compared with a group average of 7 per cent.

Despite spending of £578m on acquisitions last year, balance sheet gearing was only 26 per cent. This left "considerable financial flexibility with which to pursue our strategic objectives," Sir John said.

Montagu's Western Motor stake

BY CLAY HARRIS

Samuel Montagu, the merchant bank, is to hold an equity stake in Western Motor Holdings as part of a management buy-in which it has arranged at the car-delivery contractor.

Montagu is thelargest partner in a concert party which yesterday announced the purchase of 53.6 per cent of Western ordinary shares and 37.5 per cent of its non-voting A ordinary shares.

A full order launched as a result, and supported by the Western board, values the company at £5.5m. Montagu's 35.2 per cent stake, bought for £1.6m, will fall to 29.4 per cent under a proposed capital reconstruction.

It is rare for British banks to hold such equity stakes in industrial companies and without precedent at Montagu itself. The bank views the holding as short-term and expects to see it diluted as Western issues shares for future acquisitions, Mr Neil Goldie-Scot of Montagu said yesterday.

Western will be managed by Mr Richard Palmer and Mr Bruce McNeill, partners in the buy-in and former joint managing directors of Giltrap Holdings, the New Zealand-linked concern which last month failed to take over Frank G. Gates, London-based Ford dealer.

They plan to acquire additional UK motor distributors. Mr Colin Giltrap is not involved in the latest deal, although Montagu also advised him in the Gates bid.

Mr Norman Parker will continue to manage Autocar & Transporters, Western's only operating subsidiary. It delivers cars for Austin-Rover, Vauxhall, Peugeot and Citroen.

The concert party, which includes Strategic Capital Corporation and funds managed by MIM, is offering 270p in cash or loan notes for each ordinary share and 230p for A shares. Ordinary shares closed at 208p on Monday.

It proposes to enfranchise A shares and compensate ordinary holders for the resulting dilution by issuing 174 new shares for every 1,000 held and to issue £3m in convertible loan stock to Montagu and its Australian subsidiary, Dominguez Barry Samuel Montagu.

Most of the shares were sold to the concert party by directors and Estates and Agency Holdings, which owned 29.9 per cent.

Western yesterday reported pre-tax profits for 1986 of £701,000 (£229,000) after an exceptional item of £250,000 arising from an out-of-court settlement of a property dispute. Turnover rose to £10.5m (£9.1m). Earnings per share nearly trebled to 24.9p (8.5p). The company continues to pay no dividend.

BM doubles to £2m midway

BY NICK GARNETT

THE RAPIDLY expanding BM Group, which distributes and manufactures a range of machinery mainly for the construction industry, more than doubled its interim pre-tax profits from £1.03m to £2.12m while indicating that it is keen to move into DIY-type consumer products.

Turnover was up 80 per cent to £23.39m (£16.30m) for the six months to December 31. Mr Roger Shute, chairman and chief executive, said the group remained confident that its aim of achieving a 10 per cent pre-tax return on sales, at present a little more than 7 per cent, would be achieved within the next 2½ years.

BM, in which C. H. Beazer reduced its stake last year from 50 per cent to 25.8 per cent, has purchased a number of companies during the past 10 months.

They included Benford Concrete Machinery, Hymac excavators, Haulamatic dump trucks and Ritemixer which manufactures truck-mounted mixing equipment.

These last three businesses, bought from NEI Thompson, made no contribution to the interim figures. Hymac and Ritemixer only came on stream in January following the relocation of plant from NEI to BM factories and BM is looking for more factory space before it resumes production of the Haulamatic rigid and articulated dump trucks.

Benford made a contribution of £800,000 to pre-tax profits. Mr Shute said that when this was taken into account BM's organic growth for the six-month period was about 35 per cent.

The group obtains 85 per cent of sales from construction machinery, including distribution of Hitachi excavators and the rest from agricultural equipment and paper and textile conversion machinery.

Mr Shute said the company intended to make two further purchases within the next three months. These would be subsidiaries of public companies which would add to BM's construction equipment interests by increasing its manufacturing space and strengthening export distribution.

However, the company is clearly keen to also move into the consumer side of the building industry. It recently looked at the possibility of purchasing two companies, one manufacturing hand tools, but nothing came of it.

Mr Shute said gearing was about 20 per cent and would be halved by the middle of this year, excluding the impact of any acquisitions.

The company has so far spent £600,000 rationalising production facilities following the purchase of the NEI businesses. Ritemixer is manufacturing nine units a week, higher than in its history. Hymac is producing between 16 and 20 units a month.

Earnings per share increased 53 per cent to 5.56p (3.64p) with an interim dividend 36 per cent higher at 0.9p (0.66p).

Yule Catto profits from Barrow sale

By Clay Harris

Yule Catto said yesterday that the sale of its stake in Barrow Hepburn had produced a "considerable profit" which more than paid for the cost of its unsuccessful bid for the chemicals and engineering group.

At yesterday's market price of 75p, Yule Catto was showing a profit of about £250,000 on the disposal of its 1.59m Barrow shares.

Marley bid

Marley declared its agreed offer for Nottingham Brick unconditional after additional acceptances raised its interest to 78.29 per cent of ordinary shares. The option of accepting shares or cash in a different ratio than the two shares-plus-100p offer has now been closed.

The preference share offer, which has attracted only 29.74 per cent acceptances was extended until March 30 and is not yet unconditional.

Guinness Peat

Guinness Mahon Development Capital has taken a large stake in a company formed to buy the business and trading assets of Sleeveprint, subsidiary of the Garrod and Lofthouse printing group which went into receivership last year. Sleeveprint produces record sleeves and compact disc packaging. GMDC is part of Guinness Peat Group.

Rotunda ahead of forecast

Rotunda, manufacturer of specialist adhesive tapes, returned profits of £1.01m pre-tax for 1986. That was £395,000 higher than the previous year's figures and £131,000 ahead of the forecast made last October at the time of the company's USM flotation.

With some benefit from raw material prices profit margins improved from 5.5 per cent to 8.9 per cent.

Turnover for 1986 was little changed at £11.33m (£11.15m). Pre-tax profits included interest income of £17,000, against a previous charge of £42,000.

Tax took £366,000 (£2,000) and left earnings per 10p share at 9.6p (9.4p). Shareholders are to receive the promised 1p dividend.

During the year Rotunda's balance sheet was strengthened with an increase in cash and short-term deposits of £843,000, including £560,000 raised from the flotation, and after repaying £277,750 of loans and preference capital.

The directors said they were seeking suitable acquisitions but had nothing specific to report.

EMAP expands

EMAP, the publishing group, has bought East Yorkshire Newspapers from United Provincial Newspapers for an undisclosed sum.

EMAP will retain the Driffield operation which publishes the Driffield Times and two local editions as well as the free East Yorkshire Weekly News. It has sold, however, the Goole Times and the free Goole Trader to competing Goole Chronicle Publications.

Writedowns help to push Charterhall into the red

BY TERRY POVEY

Charterhall, the oil and gas group in which Mr Russell Goward's Westmex acquired a controlling stake last summer, yesterday announced a pre-tax loss of £5.66m for 1986—mainly due to a combination of writedowns of exploration assets and operating losses.

Mr Goward, who until February 1986 was the chief executive of IEL, the Brierley group's Australian subsidiary, said that Charterhall had now been "slimmed down as much as possible" and that he was keen to see "operating businesses added to the oil and gas core.

"What we need are some fully-owned companies, we have done a lot this year so far making acquisitions in the private sector and taking stakes in 11 public companies," he added.

"We are extremely ambitious and our aim is to own 100 per cent of every company we invest in," said Mr Goward.

Charterhall's pre-tax loss, which compared with a profit of £1.76m in 1985, was posted on turnover sharply lower at £5m (£11.1m).

The loss per share was 8.55p (earnings of 0.54p) and no dividend was paid for the second year running.

At December 31, Charterhall had stakes in nine public companies with a market value of £6.4m—of which almost half consisted of a 14.9 per cent stake in Lookers, the Manchester motor and agricultural machinery company.

After negotiations it became clear that Lookers would oppose a bid from Charterhall so the stake was sold last month for £2.9m. A week later Charterhall bought a 12.4 per cent stake in a television company, Trillion, plus an option on a further 4.7 per cent for £4.36m. According to Mr Goward, Trillion is "very receptive to our ideas."

Also announced yesterday was the retirement of Mr Derek Williams as chairman of Charterhall and his replacement by Mr Goward.

Glaxo to seek Tokyo listing

Glaxo has confirmed that it is to seek a listing on the Tokyo stock exchange by the end of its current financial year in June. This will broadly coincide with the listing Glaxo is seeking in New York.

Glaxo said the listing, which will not involve the issue of new shares, will be sponsored by Nomura, the Japanese stockbrokers. The shareholder service agent will be the Toyo Trust & Banking Co, and the dividend paying banks will be Dai-Ichi Kangyo Bank and Sanwa Bank.

A Japanese prospectus is to be published, probably in early June. The listing will mean that Glaxo has to publish a balance sheet with its half year results. Glaxo said the listing was a logical step in view of Japan's importance as a market. It is the second largest drug market in the world after the US, and the largest for antibiotics.

Kellock Trust jumps

Kellock Trust lifted pre-tax profits by more than 40 per cent to £1.1m (£772,000) in the year to December 31 1986 thanks to continued growth in the company's mainstream business of factoring and invoice discounting. Turnover moved up from £4.6m to £5.9m.

Mr John Beckwith, who became chairman of Kellock when London and Edinburgh Trust last autumn acquired half of the company, said Kellock's strategy was to develop into a more broadly-based financial services group.

Tax charges increased from £261,372 to £367,457 and earnings per share rose from a restated 0.42p to 0.53p. The proposed final dividend is 0.1p (0.15p).

Williams Holdings

Williams Holdings now has 47,047,637 ordinary shares in issue after the creation of 3,284,217 shares through the conversion of its 5 per cent cumulative convertible redeemable preference shares. Dealings in the new shares began yesterday.

Parkfield in £3m distribution expansion

Parkfield, the acquisition-hungry engineering and distribution group, is buying Teamdale Distribution, the Amersham-based distributor of electrical goods, for £2.97m.

The acquisition is the third this year for USM quoted Parkfield and follows nine purchases in 1986.

The deal will be financed by placing 1.25m shares, or 3.8 per cent of the enlarged capital, at 238p each. Shares in Parkfield closed up 7p at 253p.

Teamdale reported a trading loss of £115,000 on a turnover of £25.4m in the year to March 31 1986.

It will complement Parkfield's Foster Electrical Supplies division which distributes heating and lighting products to wholesalers. Teamdale's business is mainly supplying white electrical goods to retailers.

A month ago Parkfield bought Arthur C. Prall, Stoke based heating products distributor, for £745,000. In January, it paid £2.15m for a photographic distribution business from Spectrum, the computer software distributor.

COMPANY NEWS IN BRIEF

SINTROM (manufacturer of data storage and computer peripheral equipment): Final dividend 1.45p, making 2.2p (2.2p) for 1986. Sales £16.08m (£14.83m) and pre-tax profit £1.08m (£1.25m). Earnings 6.9p (8.9p) per 10p ordinary share.

DUNTON GROUP (property developer, brick maker, civil engineer): Interim dividend 0.2p (0.18p) for half year ended November 30 1986. Turnover £1.07m (£1.28m) and pre-tax profit £180,000 (£172,000). Tax £54,000 (£24,000). Earnings 0.65p (0.99p). Company's shares are traded on USM.

YEARLINGS—The interest rate for this week's issue of local authority bonds is 9⅞ per cent, down 1/16 of a percentage point from last week, and compares with 10⅞ per cent a year ago. The bonds are issued at par and are redeemable on March 23 1988. A full list of issues will be published in tomorrow's edition.

BBA GROUP subsidiary Scandura has acquired the assets of Cigtap Corporation in the US and is transferring them to its factory in St Helens.

PRUDENTIAL PROPERTY SERVICES, residential estate agent of Prudential Corporation, is acquiring Wrethams, north west London agency, and Lawrence Vacher and Myers, based in Wembley Park, Middlesex. Total number of outlets now stand at 377.

SAVAGE GROUP, USM-quoted shelving group, increased pre-tax profits from £151,000 to a record £476,000 in the six months to December 31, 1986. Turnover increased 68 per cent to £7.08m (£4.22m), and an interim dividend of 1.5p net is being paid—last year and initial payment of 0.5p was made. Mr Nick Savage, chairman, said a good start had been made to the seasonally better second half. Stated earnings per share improved from 0.1p to 3.7p in the opening half.

PROCESS SYSTEMS (electronic software manufacturer): Revenue $4.6m ($5.7m) and losses before tax $4.8m ($538,318 income) for six months to December 31 1986. The directors were confident that the company would return to profitable trading during the current year.

CAMELLIA INVESTMENTS is paying a final dividend of 8p making 14p net for 1986 (12p). Net turnover £2.34m (£1.96m) and profit £1.19m (£894,000) before tax £273,000 (£204,000). Extraordinary net credit being sale of subsidiary Jatel to associate £2.23m (£1.13m). Earnings 34p (25.33p).

JAMES FISHER AND SONS (shipowners, ship and insurance brokers). Final dividend 0.35p, making 2p (3.3p) for 1986. Sales £32.36m (£39.64m) and pre-tax profits £2.6m (£3.04m). Earnings 5.75p (6.71p) per 25p share.

BROAD Street Group (financial and corporate public relations): Final dividend for year to October 31 1986 1.1p. Turnover £7m (£4m) and pre-tax profits £990,000 (£226,000). Tax £401,000 (£134,000), giving earnings of 2.45p (0.42p). Comparative figures refer to Broad Street Associates to October 31 1985 and the holding company, Broad Street Group, formerly Stanelco, to February 28 1985.

RANKS HOVIS McDougall now intends to await a decision on clearance from the Office of Fair Trading before writing to shareholders of Avana Group. In a letter to Avana shareholders on March 4, RHM said it would be writing to Avana shareholders on Friday March

CATALYST Communications has conditionally agreed to acquire the entire issued share capital of Peter Miles and Partners and its affiliated companies. The initial consideration is £900,000 and further consideration of up to £1m will be payable depending on future profitability. Application will be made to trade on the Third Market.

WORLD MARKETS

FT-ACTUARIES WORLD INDICES

Jointly compiled by the Financial Times, Goldman, Sachs & Co., and Wood Mackenzie & Co. Ltd., in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS	MONDAY MARCH 16 1987					DOLLAR INDEX		
Figures in parentheses show number of stocks per grouping	US Dollar Index	Day's Change %	Pound Sterling Index	Local Currency Index	Gross Div. Yield	1986/87 High	1986/87 Low	Year ago
Australia (94)	112.68	+1.0	105.47	110.02	3.03	113.22	70.18	83.77
Austria (16)	94.34	+0.1	88.30	90.14	1.71	101.62	70.60	80.03
Belgium (47)	115.91	+0.5	108.48	109.62	4.01	115.91	53.75	72.44
Canada (132)	127.77	+0.0	119.58	121.75	2.28	127.79	86.58	94.90
Denmark (39)	112.85	-0.1	105.63	106.10	2.33	124.10	87.87	101.55
France (121)	114.12	+0.3	106.81	109.51	2.26	115.47	57.72	74.58
West Germany (99)	87.33	+0.4	81.74	83.43	2.15	100.33	74.48	87.15
Hong Kong (45)	105.38	-1.9	98.64	105.55	2.97	114.71	62.87	62.87
Ireland (14)	128.13	+0.4	119.93	124.38	3.28	128.13	62.33	85.35
Italy (76)	99.14	+3.4	92.79	96.66	1.54	108.30	46.07	75.14
Japan (458)	123.24	+0.3	115.35	118.10	0.54	123.24	49.46	65.32
Malaysia (35)	127.89	-0.2	119.70	124.22	2.98	135.38	66.67	72.76
Mexico (14)	129.18	+1.1	120.90	153.73	1.33	135.35	43.00	54.67
Netherlands (38)	109.00	-0.2	102.2	103.28	4.25	109.22	74.14	83.41
New Zealand (27)	93.08	+1.9	87.12	87.56	3.04	100.59	47.37	56.98
Norway (25)	121.37	+0.3	113.60	114.41	2.00	121.37	90.02	102.39
Singapore (27)	115.79	-0.2	108.37	114.24	3.27	120.40	55.94	57.66
South Africa (61)	134.76	+0.1	126.13	104.30	3.80	134.76	69.06	107.94
Spain (43)	113.38	+2.2	106.12	110.63	3.44	121.31	45.00	72.64
Sweden (33)	109.46	+1.4	102.45	104.15	2.26	109.46	63.35	79.96
Switzerland (52)	96.12	+1.3	89.97	91.62	1.83	104.06	69.01	78.87
United Kingdom (343)	127.37	+0.3	119.21	119.21	3.51	127.42	75.39	95.05
USA (581)	118.87	-0.6	111.26	118.87	3.01	120.11	85.46	98.54
Europe (946)	110.81	+0.7	103.71	105.02	2.91	110.97	69.36	86.18
Pacific Basin (686)	122.14	+0.3	114.32	117.27	0.71	122.14	51.10	65.84
Euro-Pacific (1632)	117.63	+0.4	110.09	112.36	1.54	117.63	58.45	73.85
North America (713)	119.34	-0.6	111.70	119.04	2.97	120.47	85.61	98.35
World Ex. US (1839)	118.19	+0.4	110.62	112.67	1.60	118.19	60.02	74.95
World Ex. UK (2077)	117.60	+0.0	110.07	114.73	2.01	117.62	69.65	83.21
World Ex. So. Af. (2359)	118.36	+0.0	110.78	115.19	2.14	118.36	69.95	84.07
World Ex. Japan (1962)	116.19	-0.1	108.75	113.64	2.96	116.72	79.87	93.25
The World Index (2420)	118.47	+0.0	110.88	115.12	2.15	118.47	70.14	84.21

Base values: Dec 31, 1986 = 100

Latest indices not available for this edition

FUTURES/OPTIONS

S&P 500 Index (CME)

Mth.	bas	close	open	high	low
Mar.	−288.50	7.85	8.20	8.75	7.70
Jun.	−290.35	9.65	0	.95	9.55
Sep.	−291.30	1.00	1.50	1.70	.80
Dec.	0	2.00	0	2.50	0

Value Line Index (KCBOT)

Mth.	bas	close	open	high	low
Mar.	+265.45	5.95	5.30	5.65	5.30
Jun.	+264.25	4.85	4.80	4.80	3.90
Sep.	0	4.30	0	0	0
Dec.	0	3.55	0	0	0

Major Market Index (CBOT)

Mth.	bas	close	open	high	low
Mar.	−442.70	1.50	1.25	3.20	.75
Jun.	−445.10	3.75	3.68	5.50	3.40
Sep.	0	0	0	0	0
Dec.	0	0	0	0	0

Composite Index (NYSE)

Mth.	bas	close	open	high	low
Mar.	−164.45	3.95	4.20	4.55	3.90
Jun.	+165.60	5.20	5.50	5.80	5.15
Sep.	+166.25	5.95	6.30	6.25	6.30
Dec.	0	6.70	0	0	0

Source: Reuter

FT SE 100 £25 PER FULL INDEX POINT

	Close	High	Low	Prev
Mar	202.90	202.90	199.30	199.20
June	206.05	206.05	203.00	202.60

Estimated volume 612 (552)
Previous day's open interest, 4,963 (4976)

LIFFE FT-SE 100 INDEX FUTURES OPTIONS

Strike Price	Calls-Last Mar	Calls-Last Apr	Puts-Last Mar	Puts-Last Apr
19000	12.92	16.43	0.02	0.38
19250	10.46	14.18	0.06	0.63
19500	8.10	12.04	0.20	0.99
19750	5.90	10.06	0.50	1.50
20000	3.99	8.23	1.09	2.18
20250	2.47	6.60	2.07	3.05
20500	1.38	5.18	3.48	4.13
20750	0.69	3.98	5.29	5.43

Estimated volume total, Calls 42 Puts 30
Previous day's open int: Calls 783 Puts 146

EUROPEAN OPTIONS EXCHANGE

Series		May 87 Vol.	May 87 Last	Aug 87 Vol.	Aug 87 Last	Nov 87 Vol.	Nov 87 Last	Stock
GOLD C	$420	457	7.50	—	—0	—	—	$406.80
GOLD C	$460	100	2	—	—	—	—	"
GOLD P	$360	—	—	20	2.20	—	—	"
GOLD P	$390	24	4.10B	3	7.50	—	—	"
GOLD P	$400	90	6.80	—	—	—	—	"
		Mar 87		Jun 87		Sep 87		
SILVER C	$550	10	10	9	40	—	—	$560
$/FI C	Fl.320	—	—	8	10.30	—	—	Fl.330.09
$/FI C	Fl.330	37	1.80	—	—	—	—	"
$/FI C	Fl.335	15	0.50	34	3.50	—	—	"
$/FI C	Fl.340	—	—	165	2.30	101	3.80	"
$/FI C	Fl.325	10	0.50	4	6.90	—	—	"
$/FI P	Fl.330	46	1.40	—	—	—	—	"
$/FI P	Fl.335	10	6	—	—	—	—	"
		Mar 87		Apr 87		May 87		
$/FI C	Fl.200	10	7	—	—	—	—	Fl.206.95
$/FI C	Fl.205	45	2.50	108	3.60	2	4.80	"
$/FI C	Fl.210	38	0.20	21	1.60	4	2.30	"
$/FI P	Fl.200	—	—	3	0.70B	—	—	"
$/FI P	Fl.205	108	0.40	67	2.30A	1	3.10	"
$/FI P	Fl.210	264	2.80	12	5.30	—	—	"
$/FI P	Fl.215	50	8	—	—	—	—	"
$/FI P	Fl.220	6	12.50	—	—	—	—	"
$/FI P	Fl.225	12	18.10A	—	—	—	—	"
$/FI P	Fl.250	6	43.40	—	—	—	—	"
		Jun 87		Sep 87		Dec 87		
$/FL C	Fl.205	6	5.50	3	7.30	—	—	Fl.206.95
$/FL C	Fl.210	80	3.20	—	—	3	6.20	"
$/FL C	Fl.215	—	—	—	—	10	4.50	"
$/FL C	Fl.235	—	—	110	0.70	—	—	"
$/FL P	Fl.190	30	0.50	—	—	—	—	"
$/FL P	Fl.200	34	2.40	1	4.20	—	—	"
$/FL P	Fl.205	92	4.20	—	—	20	8.30	"
$/FL P	Fl.215	5	9.70	—	—	—	—	"
$/FL P	Fl.235	2	28.50B	10	29.50B	—	—	"
		Apr 87		Jul 87		Oct 87		
ABN C	Fl.520	123	4.80	35	14.30	2	22	Fl.502
ABN P	Fl.460	57	1	6	4.20	—	—	"
AEGON C	Fl.100	35	0.30	62	1	—	—	Fl.88.20
AEGON P	Fl.90	26	3.80	17	5.30	6	6.80	"
AHOLD C	Fl.110	405	4.50	72	7	4	8.50B	Fl.111
AHOLD P	Fl.105	74	2	288	5	—	—	"
AKZO C	Fl.140	251	5.30	197	7.30	31	10.70	Fl.142.50
AKZO P	Fl.120	5	0.20	205	1.30	3	2.20	"
AMEV C	Fl.65	97	3.20	—	—	—	—	Fl.66.80
AMRO C	Fl.80	15	2.20	49	4.30	19	5.80	Fl.79.80
AMRO P	Fl.80	38	2.90B	—	—	14	3.30	"
ELSEVIER C	Fl.270	140	1	75	4	—	—	Fl.251
ELSEVIER P	Fl.290	155	4.50	16	8.10B	—	—	"
GIST-BROC. C	Fl.45	178	1.10	77	2.20	25	3.70	Fl.43.10
GIST-BROC. P	Fl.40	15	0.70B	54	2	8	2.70	"
HEINEKEN C	Fl.170	92	6.20	13	8.30	29	10.50	Fl.172.80
HEINEKEN P	Fl.160	39	1.90A	111	4	16	5.30	"
HOOGOVENS C	Fl.40	97	0.90	76	2.30	45	3.60	Fl.36.10
HOOGOVENS P	Fl.35	266	1.90	238	3.20	25	4	"
KLM C	Fl.40	250	3.30	29	4.90	—	—	Fl.42.80
KLM P	Fl.35	100	0.10	—	—	—	—	"
NAT. NED C	Fl.80	16	0.40	337	2	29	2.60B	Fl.73.20
NAT. NED. P	Fl.70	—	—	143	2.30	10	5	"
PHILIPS C	Fl.50	1364	1.30	421	2.80	169	4	Fl.50.40
PHILIPS P	Fl.50	229	2	384	2.90	72	3.40	"
ROYAL DUTCH C	Fl.230	919	8	548	9	100	9.50	Fl.235.60
ROYAL DUTCH P	Fl.230	277	2	162	10	10	12.80	"
ROBECO C	Fl.105	—	—	15	0.80	5	1.10	Fl.100.50
ROBECO P	Fl.100	5	2.10	3	2.70	7	4	"
UNILEVER C	Fl.540	260	10	41	18.50	33	23.70	Fl.543.50
UNILEVER P	Fl.520	118	2.20	35	9.50	—	—	"

TOTAL VOLUME IN CONTRACTS: 26,505

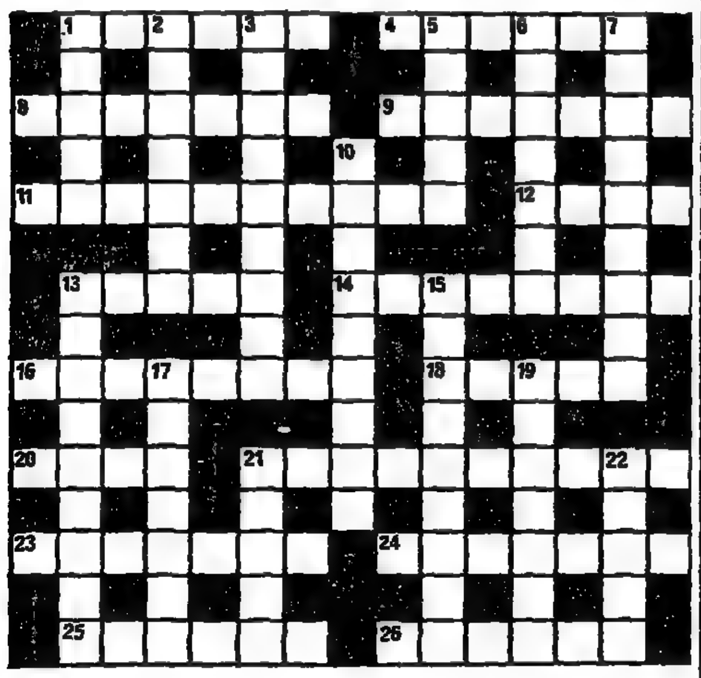
BASE LENDING RATES

	%		%		%
ABN Bank	10½	Citibank NA	10½	Nat Credit Corp. Ltd.	10½
Adam & Company	10½	Citibank Savings	¶12.45	Nat Bk. of Kuwait	10½
Allied Arab Bk Ltd.	10½	City Merchants Bank	10½	National Girobank	11
Allied Dunbar & Co.	10½	Clydesdale Bank	10½	Nat Westminster	10½
Allied Irish Bank	10½	Comm. Bk. N. East	10½	Northern Bank Ltd.	10½
American Exp. Bk.	10½	Consolidated Cred.	10½	† Norwich Gen. Trust	10½
Amro Bank	10½	Co-operative Bank	*10½	PK Finans. Intl (UK)	11½
Henry Ansbacher	10½	Cyprus Popular Bk.	10½	Provincial Trust Ltd.	12
ANZ Banking Group	10½	Duncan Lawrie	10½	R. Raphael & Sons	10½
Associates Cap Corp.	11	E. T. Trust	12	Roxburghe G'rantee	11½
Authority & Co Ltd.	11	Equator'l Tst C'p plc	11	Royal Bk of Scotland	10½
Banco de Bilbao	10½	Exeter Trust Ltd.	11	Royal Trust Bank	10½
Bank Hapoalim	10½	Financial & Gen. Sec.	10½	Standard Chartered	10½
Bank Leumi (UK)	10½	First Nat. Fin. Corp.	11½	Trustee Savings Bk.	10½
Bank Credit & Comm.	10½	First Nat. Sec. Ltd.	11½	UDT Mortgage Exp.	¶12.25
Bank of Cyprus	10½	● Robert Fleming & Co.	10½	United Bk of Kuwait	10½
Bank of Ireland	10½	Robert Fraser & Ptrs.	11½	United Mizrahi Bank	10½
Bank of India	10½	Grindlays Bank	‡10½	Westpac B'nking Corp	10½
Bank of Scotland	10½	● Guinness Mahon	10½	Whiteaway Laidlaw	11
Banque Belge Ltd.	10½	HFC Trust & Savings	10½	Yorkshire Bank	10½
Barclays Bank	10½	● Hambros Bank	10½		
Benchmark Tst Ltd.	10½	Heritable & Gen. Tst.	10½		
Beneficial Trust Ltd.	12	● Hill Samuel	§10½		
Berliner Bank AG	10½	C. Hoare & Co	10½		
Brit. Bk. of Mid. East	10½	Hongkong & Shangh'	10½		
● Brown Shipley	10½	Lloyds Bank	10½		
CL Bank Nederland	10½	Mase Westpac Ltd.	10½		
Canada Permanent	10½	Meghraj & Sons Ltd.	10½		
Cayzer Ltd	10½	Midland Bank	10½		
● Charterhouse Bank	10½	● Morgan Grenfell	10½		

† As from close of business March 10th. ● Members of the Accepting Houses Committee. * 7-day deposits 6.03%. 1-month 6.38%. Top Tier—£2,500+ at 3 months' notice 10.03%. At call when £10,000+ remains deposited. ‡ Call deposits £1,000 and over 6¼% gross. ¶ Mortgage base rate. § Demand deposit 6.02%. Mortgage 12¼%.

FT CROSSWORD PUZZLE No. 6,280

VIXEN



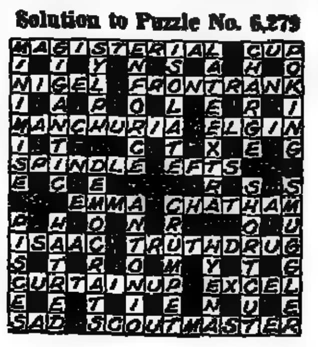
ACROSS

1 Stake a pound by mail (6)
4 A stable guy no longer (6)
8 Accompany about a hundred to gain entrance (7)
9 Makes men of learning squabble, the dog! (7)
11 Rubbish in the main at the poultry-farm? (4, 6)
12 Not at all well done, but that's exceptional (4)
13 Rome's new code (5)
14 "Here and there a lusty trout, and here and there a --" Tennyson (The Brook) (8)
16 The Tories getting into a morass can cause panic (8)
18 Feel irritated when hothead enters restaurant (5)
20 Mark some particular disc, a record always enjoyed (4)
21 The company note what's left to be invested in extra land (4, 6)
23 Holding back the design is clever—brings understanding (7)
24 A name is wrongly given. Such forgetfulness! (7)
25 A figure one's duplicated (6)
26 Puff at this point, but hold on (6)

DOWN

1 The City's into convenience food and scrap (5)
2 Bound by union leader (7)
3 He plans for a constructive follow-up (9)
5 Look after a holy man's flight (5)
6 Subsequently a number may be put sideways (7)
7 Mention credentials (9)
10 The entitlement to act (5-4)
13 A co-member's devious resort (9)
15 Bill made certain demands would be honoured (9)
17 Refuse to talk big in retirement with advancing years (7)
19 Articles about permit a sportsman needed (7)
21 Have offspring and get left in a hole! (5)
22 Breed from sound fish (5)

Solution to Puzzle No. 6,279



FT UNIT TRUST INFORMATION SERVICE

AUTHORISED UNIT TRUSTS

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FT UNIT TRUST INFORMATION SERVICE

MGM Unit Managers Ltd
MGM House, Heene Rd, Worthing 01-623 8211

High Inc.	269.1	286.2	+1.3	5.46
(Accum Units)	325.5	346.2	+1.5	5.46
UK Growth	334.3	355.6	+0.9	2.70
(Accum Units)	350.0	373.5	+0.9	2.70

MLA Unit Trust Management
1 Sessions Hse Sq, Maidstone ME14 1XX 0622 674751

MLA Gen. Tst.	40.4	42.8	—	1.75
MLA Income Trust	52.8	55.9	—	4.02
MLA Int.	59.7	63.2	—	0.85
MLA Gilt Unit Tst.	24.3	25.7	—	10.11
MLA European Trust	38.4	39.3	—	0.70
MLA American Tst.	26.6	28.1	—	0.88

ManuLife Management Ltd
St George's Way, Stevenage 0438 356101

Gilt&F xd Inl.	114.2	122.4	+1.4	7.02
Growth Units	96.8	102.9	+0.7	2.11
High Income Unit	134.8	143.3	−1.0	4.01
High Yielding Gilt Uts.	60.4	62.5	+0.2	8.59
Intl Growth Unit Tst.	150.7	160.1	−0.7	0.27
UK Smaller Cos.	102.9	109.3	+1.8	1.48
North American	83.7	88.9	−1.6	0.46
Far East	117.0	124.3	+1.7	0.08

Mayflower Management Co Ltd
No. 1 London Bridge, London, SE1 9QU 01-378 7000

Income March 16	299.7	318.9	—	3.50
General March 16	239.9	255.2	—	1.93
International March 16	151.1	160.8	—	0.67
Global Inc Fd March 16	49.6	52.8	—	5.15

Mencap Unit Trust Mngrs Ltd (a)(c)(g)
Unicorn Hse, 252 Romford Rd, E7 01-534 5544

Mencap	168.4	178.2	+0.4	4.11

Mercury Fund Managers Ltd
33 King William St, EC4R 9AS 01-280 2860

American Growth	107.0	113.2	−1.6	1.35
(Accum Units)	111.5	117.9	−2.7	1.35
American Income	52.5	55.5	−0.9	4.78
(Accum Units)	56.0	59.2	−0.4	4.78
European Growth	137.9	146.6	−0.7	5.53
(Accum Units)	142.6	151.7	−0.7	5.53
European Income	79.9	85.0	−0.3	3.50
(Accum Units)	82.2	87.4	−0.3	3.50
General	307.3	325.1	+1.6	2.06
(Accum Units)	509.3	538.9	+2.6	2.06
Gilt	89.6	90.0	+0.3	6.35
(Accum Units)	104.2	104.7	+0.3	6.35
Income	102.6	108.6	+0.3	3.57
(Accum Units)	116.9	123.7	+0.3	3.57
International	277.6	293.7	−2.0	1.07
(Accum Units)	345.5	365.6	−2.5	1.07
Japan	195.9	208.4	+1.0	0.74
(Accum Units)	201.1	213.9	+1.1	0.74
Recovery	259.2	274.2	−0.3	2.35
(Accum Units)	279.4	295.6	−0.4	2.35
Exempt March 18	301.4	309.1	+3.9	2.46
(Accum Units)	472.0	484.1	+4.7	2.46

Midland Bank Group UT Mngrs. Ltd
Courtwood House, Silver St, Head, Sheffield S1 3RD
Tel: 0742 769842

Capital	98.1	104.0	+0.5	1.51
(Accum Units)	134.7	143.0	+0.6	1.51
Commodity & Gen.	151.5	160.7	−0.9	1.76
(Accum Units)	215.5	228.6	−1.1	1.76
European Growth	129.0	136.8		1.20
(Accum Units)	155.3	164.8	+0.1	1.20
Extra High Inc.	66.1	70.1	+0.1	7.20
(Accum Units)	79.4	84.2	+0.1	7.20
Gilt & Fxd. Int.	55.1	57.5	+0.2	8.59
(Accum Units)	94.6	98.8	+0.3	8.59
High Yield	186.9	198.2	+0.5	4.73
(Accum Units)	324.4	344.3	+0.5	4.73
Income	208.4	221.3	+0.6	3.16
(Accum Units)	349.4	370.7	+0.8	3.16
Japan and Pacific	324.6	344.3	+1.5	0.12

Perpetual Unit Trust Mngmt. (a)
48 Hart Street, Henley on Thames 0491 576868

International Growth	305.8	326.4	−2.0	0.97
Income	233.9	249.2	+0.5	3.68
Worldwide Recovery	167.9	179.2	−1.5	1.61
American Growth	76.4	81.4	−0.9	0.88
Intl. Emerging Cos.	90.7	96.9	−0.6	0.72
Far East Growth Fd.	93.8	100.2	−0.5	0.78
European Growth Fd.	63.1	67.4	−0.2	1.83

Prolific Unit Trust Managers Limited
222 Bishopsgate, London EC2 01-247 7544

Prolific America Inc.	59.9	63.8	−1.0	3.01
Prolific C'vert & Gilt	114.9	122.4	+0.2	4.93
Prolific Euro Gth&Inc.	52.0	55.2	+0.1	2.76
Prolific Extra Inc.	113.0	120.7	+0.3	3.68
Prolific Far East	196.6	210.3	−1.0	—
Prolific High Inc.	77.7	83.2	+0.9	3.42
Prolific Intl.	141.3	150.6	—	0.37
Prolific N. Amer.	139.0	148.7	−3.5	—
Prolific Spec. Sits	92.4	98.3	+0.8	1.02
Prolific Technology			—	—

Providence Capitol Fd. Mgrs. Ltd
30 Uxbridge Road, London W12 8PG 01-749 9111

Japan Inc.	86.7	92.8	−0.3	0.00
Japan Acc.	86.9	93.0	−0.3	0.00
Worldwide Inc.	76.9	81.4	−0.5	1.09
Worldwide Acc.	77.3	82.9	−0.5	1.09
European Tst Inc.	92.3	98.2	−0.3	0.35
European Tst Acc.	92.8	98.8	−0.4	0.35
North American Inc.	67.3	71.9	−1.5	1.18
North American Acc.	68.3	72.3	−1.5	1.18
UK Equity Inc.	81.4	86.2	+0.3	1.89
UK Equity Acc.	85.0	90.0	+0.2	1.89
UK High Inc Eqty Inc.	58.3	61.7	—	4.93
UK High Inc Eqty Acc.	59.5	63.0	+0.1	4.92
Hong Kong Trust	44.1	46.7	−1.3	0.38
Swiss Equities Trust	45.4	48.1	—	2.92

Provident Mutual Unit Trust Managers Ltd.
25-31 Moorgate, London, EC2R 6BA. 01-588 3963

PM Equity Growth	94.8	100.9	—	0.72
PM Income and Growth	83.0	88.4	—	3.99
PM N American Growth	55.2	58.7	—	0.31
PM European Growth	47.5	50.5	—	0.60
PM Japan Growth	57.8	61.4	—	0.45
PM Overseas Growth	52.7	56.0	—	0.21

Prudential Unit Trust Mngrs Ltd (a) (b) (c)
51-69 Ilford Hill, Ilford, Essex IG1 2DL 01-478 3377

Holborn Comm Tst.	62.9	66.3	−0.2	0.45
Holborn Equity Income	60.2	63.7	+0.3	4.04
Holborn Equity Tst.	501.6	530.7	+2.3	2.54
Holborn European Tst.	112.6	119.1		0.70
Holborn Gilt Tst.	191.7	199.2	−0.1	2.39
Holborn High Inc Tst.	74.2	78.5	+0.2	5.50
Holborn Intl Grth Tst.	112.5	119.0	−1.0	0.73
Holborn Japanese Tst.	113.7	120.3	−0.6	0.05
Holborn N. Amer. Tst.	90.3	95.5	−1.0	0.51
Holborn Sm Cos Tst.	62.6	66.2	+0.3	1.76
Holborn Spec Sits Tst.	83.1	87.9	+0.1	1.66
Holborn UK Growth Tst.	99.3	105.0	−0.3	1.78

Quilter Management Co Ltd
31-45 Gresham Street, London EC2 01-600 4177

Quadrant Gen. Fd.	548.2	580.2	—	1.94
Quadrant Income	293.9	311.1	—	3.80
Quadrant Intl. Fund	435.4	460.8	—	1.09
Quadrant Spec. Sits	350.5	371.0	—	2.36

Reliance Unit Mgrs. Ltd
Reliance House, Tunbridge Wells, Kent 0892 22271

British Life	206.9	222.5	+0.6	2.50
Reliance Unit Tst (Inc)	138.8	148.5	+0.4	2.09
Reliance Ut Tst (Acc)	185.7	198.4	+0.6	2.09

N.M. Rothschild Asset Management
St Swithin's Lane, London EC4 01-280 5456

NC America (Inc)	308.5	328.1	−3.4	0.89
NC America (Acc)	336.8	358.2	−3.8	0.89
NC Inc Fd.	108.5	115.4	+0.5	3.51
NC Japan Fd.	201.1	213.9	+0.3	—
NC Major UK Cos Fd.	63.4	67.4	+0.3	1.94
NC Smlr Australasian	74.4	79.2	−0.3	0.94
NC Smaller Cos	180.0	191.4	+0.5	1.41

INSURANCES

FT UNIT TRUST INFORMATION SERVICE

M & G Group
Three Quays, Tower Hill, EC3R 6BQ 01-626 4588

Amer Bond (Acc)	216.2	227.2	-4.3	—
Amer Rec Bond (Acc)	272.7	286.4	-4.5	—
Amer Smlr Co Bd (Acc)	118.7	124.7	-1.3	—
Australasian Bd (Acc)	166.5	175.0	-1.4	—
Commodity Bond (Acc)	173.3	182.1	-0.6	—
Deposit Bond (Acc)	221.5	232.7	—	—
Equity Bond (Acc)	668.7	702.2	+5.7	—
Equity Bond Bonus	282.6	296.8	+2.4	—
European Bond (Acc)	184.0	193.4	-0.6	—
Extra Yld Bd (Acc)	359.6	377.6	-0.4	—
Far Eastern Bond (Acc)	143.6	150.9	-1.7	—
Gilt Bond (Acc)	256.3	269.2	+1.4	—
Gold Bond (Acc)	128.2	134.7	+0.5	—
High Yield Bond (Acc)	245.7	258.1	-0.7	5.41
Index-Linked GtBd(Acc)	124.7	131.1	+0.5	—
Internl Bond (Acc)	399.9	420.0	-1.9	—
Internl Inc Bond (Acc)	128.3	134.8	-0.9	—
Japan Bond (Acc)	215.3	226.1	-0.5	—
Japan Smaller Co (Acc)	149.6	157.2	-0.7	—
Managed Bond (Acc)	476.4	500.4	+0.9	—
Property Bond (Acc)	285.7	300.1	+0.1	—
Recovery Bond (Acc)	349.8	367.4	-2.2	—

Pensions Funds

American (Cap)	331.9	348.6	-5.1	—
American (Acc)	460.5	483.4	-6.8	—
Building Soc (Cap)	93.4	98.3	—	—
Building Soc (Acc)	129.6	136.1	—	—
Deposit (Cap)	153.5	161.3	-0.1	—
Deposit (Acc)	212.9	223.7	—	—
European (Cap)	136.9	143.9	+0.6	—
European (Acc)	189.9	199.6	+0.9	—
Equity (Cap)	399.9	419.7	-0.6	—
Equity (Acc)	545.9	573.3	-0.3	—
Gilt (Cap)	240.6	252.7	+0.2	—
Gilt (Acc)	333.7	350.5	+0.6	—
Gold (Cap)	89.9	94.5	+0.1	—
Gold (Acc)	124.7	131.1	+0.3	—
Index-Linked (Cap)	94.9	99.7	+0.1	—
Index-Lnkd Gilt (Acc)	131.6	138.3	+0.3	—
International (Cap)	106.6	112.0	-0.7	—
International (Acc)	147.9	155.4	-0.8	—
Intnl Inc (Cap)	104.2	110.2	-0.7	—
Intl Inc (Acc)	145.4	152.8	-0.9	—
Japan (Cap)	128.4	134.9	-0.4	—
Japan (Acc)	178.0	187.0	-0.5	—
Managed (Cap)	300.0	315.1	-1.1	—
Managed (Acc)	416.1	437.0	-1.3	—
PPP Fund (Cap)	286.6	301.0	+1.4	—
PPP Fund (Acc)	397.5	417.5	+2.3	—
Pacific (Cap)	234.5	246.4	-8.2	—

NM Schroder Life Assurance Ltd
Enterprise House, Portsmouth 0705 827733

American	252.7	266.0	-1.5	—
Australian	158.3	166.6	-1.0	—
CCM Vanguard Mngt.	392.4	413.0	-1.5	—
Equity	848.0	892.6	-0.7	—
European	319.3	336.1	+6.5	—
Far Eastern Growth	125.8	132.4	-0.6	—
Fixed Interest	324.9	342.0	+1.4	—
Gold	103.2	108.6	+0.6	—
Income Accum	419.5	441.5	+0.5	—
International	265.4	279.3	+0.3	—
Japan Smllr Co's	218.2	229.6	+1.0	—
Managed	425.3	447.7	+0.1	—
Property	285.9	300.9	+0.1	—
Residential Property	107.1	112.7	+0.3	—
Singapore & Malaysian	140.6	148.0	(z)	—
Smaller Companies	365.4	384.6	+1.5	—
Tokyo	353.6	372.2	+0.9	—
UK Equity	362.9	382.0	(z)	—
American Pension	276.5	291.0	-2.4	—
Australian Pension	193.5	203.6	-0.8	—
CCM Vanguard Pension	160.7	169.1	-0.3	—
Equity Pension	585.2	616.0	-0.7	—
European Pension	236.6	249.0	+0.1	—
Far Eastern Grwth Pen	138.1	145.3	-1.1	—
Fixed Interest Pension	280.8	295.5	+0.7	—
Global Mngd Pension	137.0	144.2	-0.2	—
Gold Pension	111.6	117.4	+0.6	—
Income Acc Pension	211.7	222.8	+0.2	—
International Pension	171.0	180.0	+0.6	—
Japan Smllr Co's Pen	269.7	283.8	+1.5	—
Managed Pension	1193.5	1256.3	-0.4	—
Property Pension	267.0	281.0	+0.1	—
Residentl. Prop Pen	111.7	117.5	+0.4	—
Singapore & Malay. Pen.	158.5	166.8	(z)	—
Smaller Cos Pension	173.4	182.5	+0.8	—
Special Exempt	308.5	324.7	+1.0	—
Tokyo Pension	401.5	422.6	+0.6	—
UK Equity Pension	200.3	210.8	(z)	—

Prices: Life Series 4 Acc; Pension Series C Acc March 13

National Mutual Life
5 Bow Churchyard, London EC4M 9DH 01-236 1566

Managed Fund	187.3	197.2	—	—
Managed Prospect Fund	147.5	155.3	—	—
UK Equity Fd.	216.2	227.6	—	—
Fixed Interest	141.8	149.3	—	—
Pacific	188.2	198.2	—	—
North American	119.1	125.4	—	—

Property Growth Assur Co Ltd

Providence Capital Life Assc. Co Ltd

Royal Heritage Life Assur.—Contd.

Scottish Provident Institution

Scottish Widows' Group

Sun Life Unit Assurance Ltd

Swiss Life Pensions Ltd

TSB Life Ltd

Shield Assurance Ltd

Skandia Life Assurance Co Ltd

Target Life Assurance Co. Ltd.

Tunbridge Wells Equitable

UK Life Assurance Co Ltd

UK Provident

Vanbrugh Life Assurance

Vanbrugh Pension Limited

Windsor Life Assur Co Ltd

Standard Life Assurance Company

Sun Alliance Insurance Group

Sun Life of Canada (UK) Ltd

M&G Assurance

Manufacturers Life Insurance Co (UK)

Merchant Investors Assurance

Municipal Life Assurance Ltd

NEL Britannia Assce Co Ltd

NEL Pensions Ltd

National Mutual of Australasia

National Provident Institution

Norwich Union Asset Management Ltd

Norwich Union Life Insurance Soc.

Pearl Assurance (Unit Funds) Ltd

Phoenix Assurance Co Ltd

Pioneer Mutual Insurance Co Ltd

Premium Life Assurance Co Ltd

Property Equity & Life Ass. Co

Provident Life Assoc Ltd

Provident Mutual Life Assc. Assn.

Provincial Life Assurance Co Ltd

Prudential Assurance Co

Prudential Pensions Limited

Regency Life Assurance Co Ltd

Reliance Mutual

Royal Heritage Life Assurance Ltd

Royal Life Insurance Ltd

Save & Prosper Group

Scottish Amicable Investments

Scottish Equitable Life Assur. Soc.

Scottish Life Investments

Scottish Mutual Assurance Society

Scottish Mutual Investments

OFFSHORE AND OVERSEAS

MANAGEMENT SERVICES

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FT UNIT TRUST INFORMATION SERVICE

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LONDON SHARE SERVICE

BRITISH FUNDS

"Shorts" (Lives up to Five Years)

1986/87 High	Low	Stock	Price £	+ or –	Yield Int.	Red.
[illegible]	[illegible]	Funding 6½pc 85-87	[illegible]	....	6.51	7.84
[illegible]	[illegible]	Treas. 10pc 1987	[illegible]	[illegible]	9.99	9.40
[illegible]	[illegible]	Treas 3pc 1987	[illegible]	[illegible]	3.04	7.35
[illegible]	[illegible]	Treas. 12pc 1987	[illegible]	[illegible]	11.81	9.29
[illegible]	[illegible]	Treas 7¾pc 1985-88‡‡	[illegible]	[illegible]	7.83	8.96
104	[illegible]	Exch 10½pc '88	[illegible]	[illegible]	10.36	9.20
[illegible]	[illegible]	Treas 9¾pc Cv '88	[illegible]	[illegible]	9.68	9.12
[illegible]	[illegible]	Transport 3pc '78-88	[illegible]	[illegible]	3.15	6.91
[illegible]	[illegible]	Treas. 9½pc '88	[illegible]	[illegible]	9.46	9.19
[illegible]	[illegible]	Treas 11½pc 1989	[illegible]	.....	11.05	9.12
[illegible]	[illegible]	Treas 9½pc Cnv 1989	[illegible]	[illegible]	9.42	9.06
[illegible]	[illegible]	Treas 3pc 1989	[illegible]	[illegible]	3.25	9.84
[illegible]	[illegible]	Treas 10½pc 1989	[illegible]	[illegible]	10.22	9.10
[illegible]	[illegible]	Exch.10pc 1989	[illegible]	[illegible]	9.82	9.11
[illegible]	97	Exch 11pc 1989	[illegible]	[illegible]	10.57	9.13
[illegible]	[illegible]	Treas 5pc 1986-89	[illegible]	[illegible]	5.34	7.79
[illegible]	[illegible]	Exch 10¼pcCv '89	[illegible]	[illegible]	9.63	7.53
[illegible]	[illegible]	Treas 13pc 1990‡‡	[illegible]	[illegible]	11.85	9.02
[illegible]	[illegible]	Exch 11pc 1990‡‡	[illegible]	[illegible]	10.50	9.09
[illegible]	[illegible]	Exch. 12½pc 1990	[illegible]	[illegible]	11.49	9.08
[illegible]	[illegible]	Treas. 3pc 1990	[illegible]	[illegible]	3.38	7.08
[illegible]	[illegible]	Treas 8¼pc 1987-90‡‡	[illegible]	[illegible]	8.38	8.80
[illegible]	93	Treas. 10pcCv 1990	[illegible]	[illegible]	9.76	9.16
[illegible]	[illegible]	Exch 2½pc 1990	[illegible]	[illegible]	2.90	6.80
[illegible]	[illegible]	Treas 11¾pc 1991	[illegible]	[illegible]	10.84	9.08
[illegible]	[illegible]	Funding 5¾pc '87-91‡‡	[illegible]	[illegible]	6.26	8.14
[illegible]	[illegible]	Treas. 3pc 1991	[illegible]	[illegible]	3.31	7.13
[illegible]	[illegible]	Treas 10pc Cv '91	[illegible]	[illegible]	9.40	8.21
[illegible]	[illegible]	Exch. 11pc 1991	[illegible]	[illegible]	10.30	9.14
[illegible]	[illegible]	Treas 12¾pc 1992‡‡	114	[illegible]	11.18	9.09
[illegible]	[illegible]	Treas 10pc 1992	[illegible]	[illegible]	9.63	9.02

Five to Fifteen Years

[illegible]	[illegible]	Treas 10½pc Cv 1992‡‡	[illegible]	[illegible]	9.93	9.07
[illegible]	[illegible]	Exch. 12¼pc '92	[illegible]	[illegible]	10.85	9.18
[illegible]	[illegible]	Exch 13½pc 1992	[illegible]	[illegible]	11.44	9.24
108	[illegible]	Treas 10pc 1993‡‡	[illegible]	[illegible]	9.61	9.11
[illegible]	[illegible]	Treas 12½pc 1993‡‡	[illegible]	[illegible]	10.82	9.19
92	[illegible]	Funding 6pc 1993‡‡	[illegible]	[illegible]	6.71	8.13
[illegible]	[illegible]	Treas 13¾pc 1993‡‡	122	[illegible]	11.25	9.20
[illegible]	[illegible]	Treas 14½pc 1994‡‡	[illegible]	[illegible]	11.38	9.07
[illegible]	[illegible]	Exch 13½pc 1994	[illegible]	[illegible]	11.07	9.21
[illegible]	[illegible]	Treas. 10pc Ln. 1994	[illegible]	[illegible]	9.52	9.02
[illegible]	[illegible]	Exch. 12½pc 1994	[illegible]	[illegible]	10.62	9.16
104	[illegible]	Treas 9pc 1994‡‡	[illegible]	[illegible]	8.96	8.91

[illegible]

Over Fifteen Years

[illegible]

Undated

[illegible]

Index-Linked (b)

		Stock		Price	+ or –	(1)	(2)
[illegible]	[illegible]	Treas. 2pc '88	(297.1)	[illegible]	[illegible]	—	[illegible]
[illegible]	99	Do 2pc '90	(333.9)	[illegible]	[illegible]	1.46	[illegible]
[illegible]	[illegible]	Do. 2pc '92‡‡	(385.8)	[illegible]	[illegible]	2.44	[illegible]
[illegible]	[illegible]	Do. 2pc '96	(267.9)	[illegible]	[illegible]	3.09	[illegible]
[illegible]	[illegible]	Do 2½pc '01	(308.8)	[illegible]	[illegible]	3.30	[illegible]
[illegible]	[illegible]	Do. 2½pc '03	(310.7)	[illegible]	[illegible]	3.28	[illegible]
[illegible]	[illegible]	Do. 2pc '06	(274.1)	[illegible]	[illegible]	3.27	[illegible]
[illegible]	92	Do. 2½pc '09	(310.7)	[illegible]	[illegible]	3.23	[illegible]
[illegible]	[illegible]	Do 2½pc '11	(294.1)	[illegible]	[illegible]	3.21	[illegible]
[illegible]	[illegible]	Do. 2½pc '13	(351.9)	[illegible]	[illegible]	3.16	[illegible]
[illegible]	[illegible]	Do. 2½pc '16	(322.0)	[illegible]	[illegible]	3.15	[illegible]
100	[illegible]	Do. 2½pc '20	(327.3)	[illegible]	[illegible]	3.11	[illegible]
[illegible]	[illegible]	Do. 2½pc '24 ‡‡	(385.3)	[illegible]	[illegible]	3.08	[illegible]

Prospective real redemption rate on projected inflation of (1) 10% and (2) 5%. (b) Figures in parentheses show RPI base month for indexing, ie 8 months prior to issue. RPI for June 1986: 385.8 and for January 1987: 394.5.

INT. BANK AND O'SEAS GOVT STERLING ISSUES

		Stock	Price	+ or –	Int.	Red.
[illegible]	[illegible]	African Dev Bk 11¼Ln 2010	[illegible]	.....	10.28	[illegible]
111	[illegible]	Asian Dev Bk 10⅛pcLn2009	[illegible]	.....	9.82	[illegible]
[illegible]	[illegible]	Australia 13½pc 2010	[illegible]	.....	10.45	[illegible]
[illegible]	[illegible]	Do. 11¾pcLn2015	[illegible]	.....	10.15	[illegible]
[illegible]	[illegible]	Euro Inv Bk 11pc Ln 2002	[illegible]	.....	9.92	[illegible]
[illegible]	91	Do. 10¼pc2004	[illegible]	.....	9.77	[illegible]
[illegible]	[illegible]	Int-Am Dev Bk 12½pc 2003	[illegible]	.....	10.28	[illegible]
[illegible]	[illegible]	Do. 9¾pcLn 2015	[illegible]	.....	9.77	[illegible]
[illegible]	81	Mlysia 10¾pcLn 2009	[illegible]	.....	11.77	[illegible]
[illegible]	[illegible]	Malaysia 12¼pc '88	101	.....	12.13	[illegible]
[illegible]	[illegible]	NZ 14¼pc 1987	[illegible]	.....	14.06	[illegible]
[illegible]	[illegible]	Do. 11¼pc 2008	[illegible]	.....	10.24	[illegible]
[illegible]	[illegible]	Do 11½pc 2014	[illegible]	.....	10.19	[illegible]
[illegible]	[illegible]	Sweden 13½pc Ln 2010	[illegible]	.....	10.36	[illegible]
[illegible]	[illegible]	Do 11pc Ln 2012	[illegible]	.....	9.95	[illegible]
[illegible]	88	Utd. Mexican States 16½pc	102	.....	16.18	[illegible]

CORPORATION LOANS

		Stock	Price	+ or –	Int.	Red.
[illegible]	[illegible]	Birmingham 13½pc 1989	[illegible]	.....	12.65	[illegible]
[illegible]	[illegible]	Do. 11½pc 2012	[illegible]	[illegible]	10.07	[illegible]
[illegible]	100	Burnley 13pc 1987	101	.....	12.89	[illegible]
[illegible]	[illegible]	GLC 6¾pc 1990-92	88	.....	7.67	[illegible]
[illegible]	[illegible]	Herts 6½pc 1985-87	99	.....	6.82	[illegible]
[illegible]	115	Leeds 13½pc 2006	[illegible]	.....	10.42	[illegible]
33	26	Liverpool 3½pc Irred.	[illegible]	.....	12.96	[illegible]
[illegible]	92	LCC 5½pc '85-87	[illegible]	[illegible]	5.55	[illegible]
[illegible]	[illegible]	Do. 6½pc '88-90	91	[illegible]	7.42	[illegible]

[illegible]

COMMONWEALTH & AFRICAN LOANS

[illegible]

LOANS

Building Societies

[illegible]

Public Board and Ind.

[illegible]

Financial

[illegible]

FOREIGN BONDS & RAILS

[illegible]

AMERICANS

[illegible]

Continued on next page

Money Market Bank Accounts

[illegible]

Money Market Trust Funds

[illegible]

NOTES

[illegible]

COMMODITIES AND AGRICULTURE

Colombia to sell coal mine stake

BY GERARD McCLOSKEY

THE LOW price of coal on the world market has forced Carbocol, the Colombian state coal company, to put up for sale 49 per cent of its share in the El Cerrejon steam coal mine, the biggest export mine in the world.

Carbocol, which owns the mine jointly with Intercor, the Colombian subsidiary of Exxon of the US, is already in talks with Japan Coal Development. It says that another possible buyer is the coal division of Total, the French oil group. Coal from the mine, which started exporting just over two years ago, was originally expected to fetch $89 a tonne, and prices were projected to reach $200 a tonne by the turn of the century.

But a continuing oversupply of steam coal has played havoc with prices, and in the first few months of this year some sales were being made at below $28 a tonne.

The mine was expected to be a cash cow for Colombia. But although it is covering its running costs at current prices, it is not able to repay the debt that remains on the capital cost of $3.4bn.

El Cerrejon has the capacity to move 15m tonnes a year. It is also the most expensive — at the time of construction a new export terminal at Puerto Bolivar and a dedicated rail link between the two were also built.

The capital cost of about $225 per annual tonne of capacity dwarfs those of competitors. Allied Queensland Coalfields' Parambahan on the Indonesian island of Sumatra — the latest steam coal mine to be developed — cost $50 per annual tonne of capacity.

The Colombian Government had to face the fact that it had assumed a debt repayment burden which would be hard to clear in the foreseeable future. It has taken the harsh decision to sell into effective 75 per cent foreign ownership the first major South American export mine.

The question of return on capital is harder to resolve for Exxon. The US energy group took most of its funding for the project from windfall profits made on Dutch natural gas operations which the Dutch agreed to release for the large Third World development.

The oversupply of steam coal looks like continuing for some time. The Venezuelan Government is now considering bids for a 10m tonnes-a-year steam coal mine at Carbozulia, just across the border from El Cerrejon.

Prices have continued to decline, with some South African coal being shipped at about $18 a tonne from the terminal at Richards Bay. But there are indications that a recovery may be on the way.

In South Africa itself there is growing pressure on prices. The rand is strengthening, rail freight rates for coal movements to Richards Bay are going up from April 1 and labour costs are set to rise. Earlier this month Mr Graham Thompson, managing director of Trans Natal, the country's second largest coal producer, said at least one company was exporting at a loss.

In Australia, two collieries have closed this year because of low prices. Accountants Coopers and Lybrand have recently reported that the New South Wales coal industry made a combined net loss of A$69m (US$47) last year, with the debt-to-equity ratio rising 50 per cent to 0.94.

Canada's largest coal mine, Quintette in British Columbia, is also in financial difficulties. The operators are trying to refinance the scheme.

Jopling calls for 'head on' attack on farm surpluses

BY PETER MONTAGNON, WORLD TRADE EDITOR

A FURTHER call for concerted international action to unwind price support mechanisms in agriculture came yesterday from Mr Michael Jopling, UK Agriculture Minister.

Unless the world was prepared to confront such action "head-on" there was a risk that the new Uruguay round of multilateral trade negotiations would drift into a third best solution for agriculture based on cartelisation and market sharing, he said in a speech prepared for delivery to the Commodity Club in Washington.

Mr Jopling paid tribute to the controversial research work on agriculture undertaken by the Organisation for Economic Co-operation and Development. France and Japan have sought to block publication of this research because of the extent of agricultural support which it reveals.

"The OECD work shows that a multi-lateral approach to our problems through a genuine and sustained reduction in support levels would bring world-wide economic benefits," he said.

"The approach which the OECD has developed provides a valuable framework of thought which seems highly relvant to the issues which the GATT negotiations will have to tackle."

Mr Michael Jopling: tribute to OECD research

Some participants in the Gatt round favoured a traditional negotiation based on trading rules and disciplines, he said, but this had not been a successful approach in the past.

"It did not succeed precisely because of the whole panoply of policies which individual countries use to support their farmers."

Mr Jopling acknowledged that his radical approach to the farm problem had made him unpopular with UK farmers, but they had to accept the major change in the economic climate in which agriculture had to operate.

The US spent $26bn in 1986 on agricultural support, the EEC $23bn and Japan $11bn, he said, and these figures take no account of the substantial transfers to farmers through food prices.

"There is a growing consensus about the need for urgent action. Farmers themselves have come to realise that increasing production, and the costs that this entails, cannot go on."

The EEC has taken some significant measures to reduce agricultural support. It was entitled to operate a common farm policy. "The mistake has been, not in the system itself, but in the level at which agriculture has been supported."

Separately Mr Jopling reiterated Britain's fierce opposition to the proposed EEC levy on fats and oils which he said "did not sit well" with the opening of the Gatt round.

Tropical timber code urged

By David Blackwell

EUROPE, the largest importer of tropical timber after Japan, should adopt a code of conduct and licensing system to ensure that all future imports come from ecologically sound, sustainably managed concessions, Friends of the Earth International urges in its latest study.

The pressure group's report, drawn up in conjunction with the World Wildlife Fund, also wants to see a special tropical forest fund set up to enable widescale regeneration of forest areas damaged by logging. For every 10 trees cut down, only one is replanted, and "European aid policies do little to help redress this imbalance," it says.

Friends of the Earth says the report has tried to be positive in spite of its familiar catalogue of woe — 5m hectares of tropical forest lost annually because of commercial logging, and whole forests in Malaysia, the Philippines, the Ivory Coast and Gabon listed as "critical" by the World Bank.

The group does not want to ban the trade, but to guide it towards proper management of a rewnewable resource, with resulting benefits for all. More than 90 per cent of the world's tropical timber forest is outside conservation areas, and the trade brings jobs for thousands and valuable export earnings for the countries involved.

Huge areas could be saved if they were found to have an economic use. Working through the trade—little tried until now—could be one of the most effective ways of preserving the forests, FoE argues.

* A Hard Wood Story—Europe's Involvement in the Tropical Timber Trade, Francois Nectoux and Nigel Dudley, £5, from FoE, 337 City Road, London EC1.

WEEKLY METALS

All prices as supplied by Metal Bulletin (last week's prices in brackets).

ANTIMONY: European free market. 99.6 per cent, $ per tonne, in warehouse, 2,320-2,350 (2,310-2,340).

BISMUTH: European free market, min. 99.99 per cent, $ per lb, tonne lots in warehouse, 2.10-2.30 (2.15-2.30).

CADMIUM: European free market, min. 99.95 per cent, $ per lb, in warehouse, ingots, 0.88-0.92 (0.89-0.93), sticks, 0.88-0.92 (0.89-0.93).

COBALT: European free market, 99.5 per cent, $ per lb, in warehouse, 6.05-6.15 (same).

MERCURY: European free market, min. 99.99 per cent, $ per flask, in warehouse, 200-210 (195-205).

MOLYBDENUM: European free market, drummed molybdic oxide, $ per lb Mo, in warehouse, 3.10-3.15 (same).

SELENIUM: European free market, min. 99.5 per cent, $ per lb, in warehouse, 4.35-4.95 (4.05-4.90).

TUNGSTEN ORE: European free market, standard min. 65 per cent, $ per tonne unit WO_3, cif, 46-50 (45.48).

VANADIUM: European Free market, min. 98 per cent V_2O_5, other sources, $ per lb V_2O_5, cif 248-255 (same).

URANIUM: Nuexco exchange value, $ per lb U_3O_8, 16.75 (same).

Silver prices to remain 'in gold's shadow'

BY JOHN WICKS IN ZURICH

SILVER demand should rise at a faster rate than supply this year, according to a study published by Credit Suisse in Zurich.

However, the bank foresees that supply will continue to exceed demand and prices stay "in the shadow of gold and platinum."

Coinage demand in 1987 is expected to fall to about 500 tonnes, as compared with about 700 tonnes last year. But overall processing demand is seen as increasing from 12,900 to 13,200 tonnes because of an expected rise in industrial use from 12,000 tonnes to 12,700 tonnes.

The study said industrial prospects were encouraging Rising incomes were leading to increased demand from the photographic, jewellery and cutlery sectors. Growth would, however, be slower than the rate for the past decade.

Supply this year is seen as edging ahead from a provisional level of 14,000 tonnes to about 14,050 tonnes. This is still at about the same volume as in 1976 and almost 4,000 tonnes up on that for 1980.

Credit Suisse says production is not wholly dependent on prices. This is because a good third of mined output comes from Mexico and Peru two highly-indebted countries. They need income from silver exports and can mine silver economically because of their weak currencies, and because most silver is a by-product of other mining activity.

In spite of this, the closure of mines producing only silver, as well as low non-ferrous metal prices, are said to have had a retarding effect on both output and new projects.

Elsewhere in the supply sector, recycling volumes are expected to remain at last year's 3,500 tonnes. A similar repeat of 1986 figures is expected for eastern-bloc trade (150 tonnes) and sales by currency authorities (400 tonnes).

Although the overall supply surplus is thus likely to drop from 1,100 tonnes to about 850 tonnes, Credit Suisse thinks it is improbable that silver will resume a leading role in the "precious - metals quartet," citing the after-effects of earlier over-pricing, the subsequent recession on the silver market and technical substitution by other materials.

Tasmanian copper mine reprieved

RENISON GOLDFIELDS Consolidated's Mount Lyell copper mine in Tasmania will stay open for an extra five years following a new aid package from the state government, reports Reuter from Sydney.

The mine had been scheduled to close in 1989 but will now stay open until deeper levels are played out, probably in 1994.

The Australian dollar's fall since 1985 has also improved the local dollar copper price, making the company profitable and justifying the mining of deeper reserves at a copper grade of about 1.95 per cent against about 1.60 per cent now, Renison said.

Facts behind the farm income figures

BY TIM DICKSON IN BRUSSELS

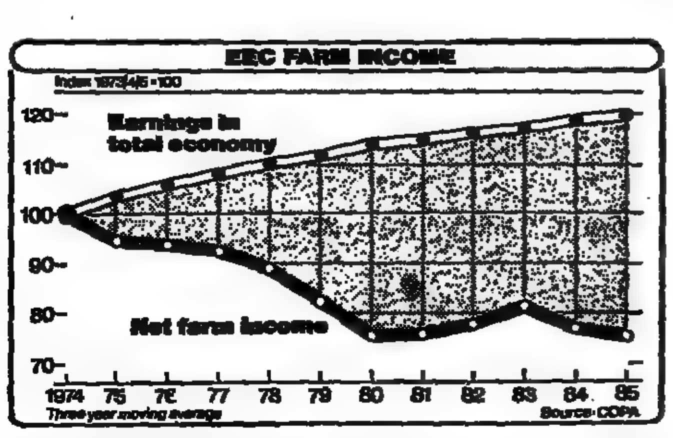
AVERAGE FARM incomes throughout the European Community rose marginally in real terms last year—but since the middle of the 1970s they have fallen sharply.

These trends were confirmed by two separate studies last week—one from the European Commission, the other from COPA, the leading agricultural lobby group—but as with all statistics the figures require careful handling.

The slight improvement in 1986 incomes, for example—according to the Commission—0.1 per cent on a year-on-year basis for 11 member states (excluding Portugal), 0.5 per cent according to COPA estimates—should be seen in the light of a particularly steep drop in 1985.

Moreover, the apparently disastrous decline since the middle of the last decade—as much as 25 per cent, says COPA, rather less if you take the Commission's findings—can hardly be used as a serious justification for abandoning reforms of the Common Agricultural Policy (CAP).

Besides disguising considerable regional differences, it arguably demonstrates that the increasingly expensive support mechanisms of the CAP are designed in a way that most benefits those that least need help. While comparisons with the rest of the economy (see chart) fail to take into account the substantially higher job losses suffered in other sectors.



Perhaps the most intriguing results of the survey—already publicised to some extent elsewhere—are the figures for individual member states. The Commission study suggests that the biggest increase in farm incomes (net value added at factor cost, was 8.7 per cent in West Germany—a finding which will no doubt be used against Mr Ignaz Kiechle, the West German Farm Minister and other members of the Federal Government as they step up their campaign against the price reductions for Germany implied by plans in Brussels to reform the complex system of green currencies and monetary compensatory amounts (MCAs).

COPA says the purchasing power of the net farm income per farmer increased by 10.9 per cent in West Germany in 1986—though Mr Kiechle will possibly be more interested in the group's claim that this followed a huge 21.9 per cent fall in 1985.

The biggest decrease in farm incomes—7.3 per cent according to the Commission and influenced by extremely wet weather—was recorded in Ireland.

Both COPA and the Commission agree that the main reason for the marginal upturn in incomes last year was the fall in farmers' "input" costs—energy, feedstocks, and fertilisers—reflecting the effect of substantially lower oil prices and the weakening dollar throughout 1986. COPA says that total farm costs—goods, services, depreciation, rent, interest charges, wages and taxes less subsidies—fell by an average 0.8 per cent on average in the Community; the rise in the volume of production last year and depressed producer prices just about cancelled each other out.

The Commission estimates that the cost of inputs declined by 1.5 per cent on average, volume rose by 0.8 per cent, and prices fell by 2.3 per cent.

LONDON MARKETS

ALUMINIUM PRICES fell heavily at the London Metal Exchange again yesterday, taking prices to five-week lows. The cash quotation added £26 to Monday's £12 fall to close at £824 a tonne, while its premium over the three months position narrowed by £4.25 to £32.25 a tonne. The premium, or "backwardation" as it is known, reached £40.50 a tonne at the end of last week as covering by granters of options caused a squeeze on supplies available for nearby delivery. Dealers said yesterday's fall was sparked off by a wave of selling by speculative "longs." They added that it had belatedly filled some gaps in chart patterns left by the recent price rise. The LME copper market was also weak under pressure early on from sterling's pre-budget firmness against the dollar. The cash quotation closed £10 lower at £906.50 a tonne after the three months position had breached a chart point at £900 a tonne. Traders said the market was very quiet, however, as operators assessed probable budget impact on currencies.

LME prices supplied by Amalgamated Metal Trading.

ALUMINIUM

	Unofficial close (p.m.) £ per tonne	+ or −	High/Low
Cash	823-5	−26	—
3 months	791.5-2	−21.75	794/788

Official closing (am): Cash 825-7 (848-9): three months 793-3.5 (811-2): settlement 827 (849). Final Kerb Close: 791-1.5. Turnover: 23,500 tonnes.

COPPER

Grade A	Unoffic'l close £ per tonne	+ or −	High/Low
Cash	906-7	−10	910/909.5
3 months	894.5-5	−7.5	896.5/891

Official closing (am): Cash 909-10 (919-20): three months 896.5-7 (904-5): settlement 910 (920). Final Kerb Close: 894-4.5.

Standard			
Cash	849-51	−12.5	852/850.5
3 months	864-6	−12.5	—

Official closing (am): Cash 850-50.5 (868-9): three months 865-6 (878-80): settlement 850.5 (869). US Producer prices 66.5/70 cents per pound. Total turnover: 26,000 tonnes.

LEAD

	Unofficial close (p.m.) £ per tonne	+ or −	High/Low
Cash	308-9	−6	309.5
3 months	300.5-1	−5.75	303/300

Official closing (am): Cash 309.5-10 (311.5-2); three months 300.5-1 (303-3.5): settlement 310 (312). Final Kerb Close: 300.5-1. Turnover: 6,250 tonnes. US Spot: 24/27 cents per pound.

NICKEL

	Unofficial close (p.m.) £ per tonne	+ or −	High/Low
Cash	2349-50	−64	2375/2350
3 months	2362-5	−61	2385/2360

Official closing (am): Cash 2365-70 (2415-6): three months 2355-60 (2411-2): settlement 2370 (2416). Final Kerb Close: 2360-5. Turnover: 1806 tonnes.

TIN

Kuala Lumpur Tin Market: Close 16.64 (16.65) ringgit per kg. Down 0.01 ringgit per kg.

ZINC

High grade	Unofficial close (p.m.) £ per tonne	+ or −	High/Low
Cash	456-7	−3.5	458.5
3 months	452.5-3.5	−2.5	454/452

Official closing (am): Cash 458.25-8.75 (459.5-60.5): three months 453.75-4 (454-4.5); settlement 458.75 (460.5). Final Kerb Close: 452-2.5. Turnover: 9,300 tonnes. US Prime Western: 37.5/4 cents per pound.

GOLD

Gold fell $½ an ounce from Monday's close in the London bullion market yesterday to finish at $404¾-405¼. The metal opened at $405¾-406¼ and traded between a high of $406¾-407 and a low of $404¼-404¾. Trading was subdued and featureless for most of the day with little incentive derived from the dollar's lacklustre performance.

GOLD BULLION (fine ounce)	Mar. 17	
Close	$404¾-405¼	(£253¼-253¾)
Opening	$405¾-406¼	(£254¼-255)
M'n'g fix	$406.00	(£254.695)
Aft'n'n fix	$406.30	(£254.686)

GOLD AND PLATINUM COINS		
Am Eagle	$417-422	(£260¼-264)
Mapleleaf	$417¼-420¼	(£261-263)
Kr'g'r'nd	$407¼-410¼	(£254¾-256¾)
½ Krug	$213¼-214¼	(£133¼-134)
¼ Krug	$107¼-108¼	(£67-67¾)
Angel	$415-418	(£259½-261½)
1/10 Angel	$40¼-45¼	(£25¼-28¼)
New Sov	$97-98	(£60½-61¼)
Old Sov	$97¾-99¼	(£61¼-62)
$20 Eagle	$490-540	(£306½-337½)
Noble Plat	$557-546	(£336¾-340¾)

SILVER

Silver was fixed 1.7p an ounce lower for spot delivery in the London bullion market yesterday at 350.65p. US cent equivalents of the fixing levels were: spot 559.15c, up 3.15c; three-month 568.35c, up 3.2c; six-month 577.15c, up 3.25c; and 12-month 595c, up 3.4c. The metal opened at 350-352p (558¼-560¾c) and closed at 349½-350½p (558½-560½c).

SILVER per troy oz	Bullion Fixing Price	+ or −	L.M.E. p.m. Unoffic'l	+ or −
Spot	350.65p	−1.70	350.5p	−2
3 months	359.30p	−1.75	359.5p	−3
6 months	367.50p	−1.75	—	—
12 months	383.50p	−1.75	—	—

LME—Turnover: 0 (8) lots of 10,000 oz.

Three months final kerb 359-60p.

MEAT

MEAT COMMISSION — Average fatstock prices at representative markets. GB—Cattle 95.38p per kg lw (+0.90). GB—Sheep 202.02p per kg est dcw (+15.27). GB—Pigs 81.40p per kg lw (+2.30).

FUTURES — Pigs: April 98.90, June 97.80, Nov 101.30. Sales: 16. Live cattle: April 98.20, Aug 97.50, Oct 97.00. Sales: 10.

JUTE

JUTE—Mar/Apr C and F Dundee BTC $445, BWC $440, BTD $355, BWD $350; C and F Antwerp BTC $405, BWC $400, BWD 340, BTD $345.

INDICES

REUTERS

Mar. 16	Mar. 13	M'th ago	Year ago
1536.2	1541.6	1612.2	1826.7

(Base: September 18 1931=100)

DOW JONES

Dow Jones	Mar. 16	Mar. 13	M'th ago	Year ago
Spot	113.23	113.21	—	131.40
Fut	112.66	112.65	—	133.93

(Base: December 31 1931=100)

MAIN PRICE CHANGES

	Mar. 17 1987	+ or −	Month ago
METALS			
Aluminium			
Free Market	$1240/1260	−15	$1410/1420
Copper			
Cash Grade A	£906.5	−10	£905
3 mths	£894.75	−7.5	£908.75
Gold Troy oz	$405	−0.75	$395.25
Lead Cash	£308.5	−5	£299.5
3 mths	£300.75	−7.75	£299.25
Nickel			
Free Mkt	175/185c		171/191c
Palladium oz	$124.60	+1.10	$119.00
Platinum oz	$523.00	[illegible]	$510.25
Quicksilver†	$205/215		$175/185
Silver troy oz	350.65p	−1.70	356.15p
3 mths	359.30p	−1.75	365.30p
Tin			
Free Mkt	[illegible]	−30	[illegible]
Tungsten	$47.06		$44.51
Wolfram 22.04lb	$46/50		$39/46
Zinc	£456.5	−3.5	£489
3 mths	£453	−2.5	£482.5
producers	$770/790		$770/790
OILS			
Coconut (Phil)	$330z	−5	$430
Palm Malayan	$330y		$337.5
Seeds			
Copra (Phil)	$220v	−20	$265
Soyabean (U.S.)	$135	−1.5	$138
GRAINS			
Barley Fut. May	£113.85	−0.45	£118.60
Maize	£142.50		£145.50
Wheat Fut. May	£118.65	+0.40	£118.40
No. 2 Hard Wint.	‡		‡
OTHERS			
Cocoa Ft. May	£1308.5	+6	£1341.5
Coffee Ft. May	£1,281	−2.5	£1469
Cotton A Ind.*	54.00c	−0.1	66.60c
Gas Oil May	$149.75	+1.35	$145.5
Rubber (kilo)	61.75p		64p
Sugar (raw)	$191.5x	−7.5	$191
Wooltops 64s	485p kilo		418p kilo

‡ Unquoted. † Per 75-lb flask. c Cents a pound. * Cotton outlook. v April. z March-April. x April-May. y May.

COFFEE

Trading was lacklustre in light volume, reports Drexel Burnham Lambert. With the trade still waiting for news from Brazil concerning future export policy the market appeared to prefer a jobbing approach.

COFFEE	Yesterday close	+ or −	Business Done
Mar.	1260-1270	−7.5	1265-1265
May	1280-1282	−2.5	1310-1280
July	1292-1295	−7.5	1325-1295
Sept	1312-1315	+5.0	1335-1310
Nov	1340-1345	+9.0	1357-1340
Jan	1372-1378	+9.0	1381-1370
Mar	1390-1410	+10.0	1400

Sales: 3,523 (4,506) lots of 5 tonnes.

ICO indicator prices (US cents per pound) for March 16: Comp. daily 1979 99.52 (99.37); 15-day average 106.04 (107.17).

COCOA

Futures traded quite actively over a £14 range and closed at the middle of that range. Light producer interest was apparent at the highs. Consumers, however, were reluctant to re-enter the market at present levels, reports Gill and Duffus.

	Yesterday's close £ per tonne	+ or −	Business done
March	1294-1296	+9.0	1298-1288
May	1308-1309	+6.0	1317-1306
July	1336-1338	+6.5	1345-1336
Sept	1356-1357	+3.0	1364-1357
Dec	1378-1380	−1.5	1382-1380
March	1403-1404	−0.5	1418-1405
May	1425-1424	+0.5	1444-1422

Sales: 3,591 (1,474) lots of 10 tonnes.

ICCO indicator prices (SDRs per tonne). Daily price for March 17: 1597.84 (1579.76); 10-day average for March 18: 1588.07 (1594.86).

POTATOES

A weaker Dutch quote encouraged immediate selling in London with overnight losses of £2.00 followed by further drop of £4.00 in April by midday. Over the past few days news that the AFBD (the market watchdog) was inspecting brokers books to try to establish whether or not a squeeze was in operation on the April position has led to fairly static, quiet trade. Over lunch a telex from the LPFA chairman stating that in his view there was "no evidence of a squeeze" resulted in £3-4 bounce on the afternoon opening before prices fell away again to close £2.00 off the lows on general book-squaring, reports Coley and Harper.

Month	Yesterday's close £ per tonne	Previous close	Business done
Apr	166.50	171.00	[illegible]
May	186.10	190.00	[illegible]
Nov	97.00	97.00	97.00-96.50
Feb	108.00	104.00	104.00
Apr	128.60	129.60	125.00-122.00

Sales: 1,426 (789) lots of 40 tonnes.

SUGAR

LONDON DAILY PRICE—Raw sugar $191.50 (£120.00), down $7.50 (down £5.00) a tonne for April-May delivery. White sugar $205.00, down $5.50.

No. 6 Contract	Yesterd'ys close	Previous close	Business done
	$ per tonne		
May	176.8-176.9	173.8-174.0	176.8-175.0
Aug	178.0-178.6	176.8-178.2	179.0-178.0
Oct	181.6-182.0	178.6-178.8	181.8-178.4
Dec	184.0-186.0	180.0-182.0	—
Mar	187.4-188.0	184.8-185.0	187.6-186.0
May	189.8-191.0	185.4-188.0	—
Aug	193.2-195.0	188.8-192.0	—

Sales: 2,030 (2,398) lots of 50 tonnes.

Tate & Lyle delivery price for granulated basis sugar was £225.00 (£231.50) a tonne for export.

International Sugar Agreement—(US cents per pound fob and stowed Caribbean ports). Prices for March 16: Daily price 7.59 (7.91); 15-day average 7.83 (7.81).

PARIS—(FFr per tonne): May 1275/1277, Aug 1300/1307, Oct 1320/1332, Dec 1350/1380, Mar 1375/1395, May 1415/1430.

SOYABEAN MEAL

Good activity was seen on June with option hedge buying against commercial selling. Despite firmer sterling and weaker Chicago prices remained reasonably steady, reports Muirpace.

	Y'sterd'ys close £ per tonne	+ or −	Business done
April	120.0-135.0	+4.50	—
June	114.0-114.8	+0.25	115.5-113.5
August	109.6-110.4	−0.95	110.6
October	111.0-111.2	−0.85	111.0
Dec	112.5-115.0	−0.50	113.6
Feb	115.0-117.0	−0.25	—
April	115.5-119.0	−0.50	—

Sales: 267 (60) lots of 20 tonnes.

RUBBER

PHYSICALS—The London market opened slightly steadier, found very little interest throughout the day and closed neglected, reports Lewis and Peat. Closing prices (buyers): Spot 61.75p (same): April 62.75p (same): May 62.50p (same). Kuala Lumpur fob prices (Malaysian cents a kilo): RSS No 1 227.5 (227.0) and SMR 20 195.0 (194.0).

FUTURES—Index 696. April 660-670. April/June 665-675, July/Sept 665-670. Sales: Nil.

FREIGHT FUTURES

Initial strength was sold into, but the lower levels achieved attracted fresh, enthusiastic buying causing the market to rally to the highs of the day. Despite no further fundamental developments bullish sentiment prevails, repors Clarkson Wolff.

	Close	High/Low	Prev.
	Dry Cargo		
April	964/967	967/958	983/986
July	832	835/818	833/834
Oct.	918	920/895	910/920
Jan.	915/920	—	923/926
Apr.	925/935	—	910/920
July	800/815	825	810/815
Oct.	900/940	—	890
Jan.	950/940	940	950/950
BFL	907	—	903.5

Turnover: 281 (529).

GRAINS

Old crop wheat firmed, reflecting firmer spot delivered prices while barley struggled to maintain the previous day's steadier trend and eased on trade selling. New Crops saw a fractional rise with nervous short-covering keeping values just steady, reports T. G. Roddick.

Mnth	WHEAT Yest'rdy's close	+ or −	BARLEY Yest'rdy's close	+ or −
	£ per tonne		£ per tonne	
Mar	118.20	+0.55	113.00	−0.25
May	118.65	+0.40	113.85	−0.45
July	120.75	+0.40	—	
Sep.	99.70	−0.05	99.25	+0.15
Nov.	101.95	+0.10	101.20	
Jan.	104.50	—	103.60	−0.05
Mar.	106.95	+0.15	105.85	−0.10

Business done—Wheat: Mar 118.20-7.90, May 118.65-8.30, July 120.75-20.50, Sept untraded, Nov 101.95-1.85, Jan 104.50-4.40, Mar 106.95-6.80. Sales: 272 lots of 100 tonnes. Barley: Mar 113.25, May 114.00, Sept untraded, Nov 101.20-1.10, Jan 103.55, Mar 105.95. Sales: 34 lots of 100 tonnes.

LONDON GRAINS—Wheat: US dark northern spring no 1 15 per cent April/May 95.50, June 95.00. US no 2 soft red winter June 90.00, July 89.50. French 11½-12 per cent Mar 142.25. English feed fob Mar 117.50/118.00, April 119.00/120.00 buyer/sellers, May 120.50 buyer, April/June 120.25/120.50 buyer/sellers, Sept 102.00/103.00, Oct/Dec 105.25/106.00. Jan/Mar 109.50/110.00 buyer/sellers. Maize: US no 3 yellow/French transhipment east coast second-half Mar 142.50. Barley: English feed fob Mar 113.50 buyer Peterhead, 114.00 buyer Boston, April/June 117.50 seller Scottish, 118.50 seller English.

HGCA — Locational ex-farm spot prices. Feed Barley: S. East 115.00, S. West 115.80, W. Midlands 114.10, N. West 112.70. The UK monetary coefficient for the week beginning Monday March 23 (based on HGCA calculations using five day's exchange rates) is expected to remain unchanged.

OIL

Prices edged upwards throughout the day. Brent traded actively up to $18.35 in April and $18.00 in May. April WTI opened 11c up on Nymex and traded 21c up at 1.30 pm EST. In the petroleum products market all products except gas oil firmed on good demand for tight prompt availabilities. Gas oil was quiet but firm on the back of strong crude prices—Petroleum Argus, London.

	Latest	Change + or −
CRUDE OIL—FOB ($ per barrel)—April		
Arab Light	—	—
Arab Heavy	—	—
Dubai	16.90-17.00	+0.15
Brent Blend	18.35-18.40	+0.325
W.T.I. (1pm est)	18.80-18.90	+0.325
Forcados (Nigeria)	—	—
Urals (cif NWE)	—	—
PRODUCTS—North West Europe Prompt delivery cif ($ per tonne)		
Premium gasoline	193-195	+1
Gas Oil	148-150	+1
Heavy fuel Oil	100-102	+2.5
Naphtha	176-178	+4

Petroleum Argus estimates.

GAS OIL FUTURES

Month	Yestrdy's close US $ per tonne	+ or −	Business Done
Apr.	151.50	+1.75	152.50-51.00
May	149.75	+1.25	150.50-48.75
June	146.50	+1.00	149.25-46.50
July	147.00	+3.00	147.50-47.00
Aug.	147.50	+3.50	147.50-47.50

Turnover: 3,442 (2,046) lots of 100 tonnes.

HEAVY FUEL OIL

Month	Yesterday close US $ per tonne	+ or −	Business Done
Apr.	98.00	+6.00	98.00-96.00
May	95.00	+5.00	95.00

Turnover: 27 (2) lots of 100 tonnes.

US MARKETS

STEADINESS in world oil prices and short-covering in the April contract rallied crude oil futures strongly, reports Drexel Burnham Lambert. Early fund buying coupled with local, commission house and trade buying pushed prices towards overhead resistance commencing at $18.60, basis May. Trade selling was noted at the highs. Short-covering and early light trade buying steadied gold futures in the face of profit-taking by both the trade and locals as the market reacted both to a weaker dollar and the rise in oil prices. Silver futures opened in line with expectations but fell on fund selling in light volume before rallying from the lows to trade in a narrow range for the rest of the day. Platinum futures rallied on good trade buying in the face of local and commission house selling Copper. After opening lower, soon found mixed support to held steady for the rest of the day. Good trade buying at lower levels helped sugar futures recover following earlier weakness on commission house liquidation. Coffee futures remained under light pressure throughout the day reflecting reports of offering below the market of Colombian and Mexican coffee. Cocoa futures continued to steady in light volume as the market continued to exhibit optimism over the prospects for a satisfactory outcome to the current ICCO talks, as well as concern over the forthcoming temporao crop in Brazil. The grains were quiet, although professional buying in maize futures was reflective of firmer premiums as a result of a tender by Taiwan.

NEW YORK

ALUMINIUM 40,000 lbs, cents/lb

	Close	Prev	High	Low
March	59.00	59.00		
May	58.10	58.10	58.20	57.80
July	57.20	57.20	57.20	[illegible]
Sept	56.30	56.30	—	—
March	[illegible]	[illegible]	—	—
May	[illegible]	[illegible]	—	—
July	[illegible]	[illegible]	—	—

COCOA 10 tonnes, $/tonnes

	Close	Prev	High	Low
March	[illegible]	[illegible]	[illegible]	[illegible]
May	[illegible]	[illegible]	[illegible]	[illegible]
July	[illegible]	[illegible]	[illegible]	[illegible]
Sept	[illegible]	[illegible]	[illegible]	[illegible]
Dec	[illegible]	[illegible]	[illegible]	[illegible]
March	[illegible]	[illegible]	[illegible]	[illegible]
May	[illegible]	[illegible]	[illegible]	[illegible]

COFFEE "C" 37,500 lb, cents/lb

	Close	Prev	High	Low
March	102.[illegible]	[illegible]	[illegible]	[illegible]
May	103.[illegible]	[illegible]	[illegible]	[illegible]
July	105.[illegible]	[illegible]	[illegible]	[illegible]
Sept	107.[illegible]	[illegible]	[illegible]	[illegible]
Dec	110.[illegible]	[illegible]	[illegible]	[illegible]
March	112.[illegible]	[illegible]	[illegible]	[illegible]
May	114.[illegible]	[illegible]	[illegible]	[illegible]
July	112.[illegible]	[illegible]	[illegible]	[illegible]

COPPER 25,000 lbs, cents/lb

	Close	Prev	High	Low
March	[illegible]	[illegible]	[illegible]	[illegible]
May	[illegible]	[illegible]	[illegible]	[illegible]
July	[illegible]	[illegible]	[illegible]	[illegible]
Sept	[illegible]	[illegible]	[illegible]	[illegible]
Dec	64.0[illegible]	[illegible]	[illegible]	[illegible]
March	64.[illegible]	[illegible]	[illegible]	[illegible]
May	65.0[illegible]	[illegible]	[illegible]	[illegible]
July	65.[illegible]	[illegible]	[illegible]	[illegible]
Sept	65.75	65.60	—	—

COTTON 50,000 lb, cents/lb

	Close	Prev	High	Low
May	56.50	56.63	57.10	56.40
July	54.82	55.18	55.35	54.75
Oct	53.50	53.70	53.75	53.45
Dec	52.65	52.85	52.87	52.50
May	53.40	53.62	—	—
July	53.85	54.00	—	—

CRUDE OIL (LIGHT) 42,000 US gallons, $/barrels

	Latest	Prev	High	Low
April	18.92	18.64	18.92	18.75
May	18.57	18.39	18.58	18.45
June	18.27	18.11	18.30	18.18
July	18.02	17.88	18.05	17.95
August	17.84	17.72	17.90	17.77
Sept	17.73	17.60	17.76	17.70
Oct	17.65	17.52	17.70	17.60
Dec	17.68	17.46	17.66	17.55
Jan	17.65	17.46	17.65	17.65

ORANGE JUICE 15,000 lb, cents/lb

	Close	Prev	High	Low
March	197.90	192.45	192.75	137.75
May	133.80	133.25	134.10	132.50
July	134.55	134.25	134.90	133.80
Sept	133.50	133.50	134.00	133.10

GOLD 100 troy oz, $/troy oz

	Close	Prev	High	Low
March	[illegible]	[illegible]	[illegible]	[illegible]
April	[illegible]	[illegible]	[illegible]	[illegible]
May	[illegible]	[illegible]	[illegible]	[illegible]
June	[illegible]	[illegible]	[illegible]	[illegible]
Aug	[illegible]	[illegible]	[illegible]	[illegible]
Oct	[illegible]	[illegible]	[illegible]	[illegible]
Dec	[illegible]	[illegible]	[illegible]	[illegible]
Feb	[illegible]	[illegible]	[illegible]	[illegible]

HEATING OIL 42,000 US gallons, cents/US gallons

	Latest	Prev	High	Low
April	[illegible]	[illegible]	[illegible]	[illegible]
May	[illegible]	[illegible]	[illegible]	[illegible]
June	[illegible]	[illegible]	[illegible]	[illegible]
July	[illegible]	[illegible]	[illegible]	[illegible]
Aug	[illegible]	[illegible]	[illegible]	[illegible]
Sept	[illegible]	[illegible]	[illegible]	[illegible]

PLATINUM 50 troy oz, $/troy oz

	Close	Prev	High	Low
March	[illegible]	[illegible]	[illegible]	[illegible]
April	[illegible]	[illegible]	[illegible]	[illegible]
July	[illegible]	[illegible]	[illegible]	[illegible]
Oct	[illegible]	[illegible]	[illegible]	[illegible]
April	[illegible]	[illegible]	[illegible]	[illegible]

SILVER 5,000 troy oz, cents/troy oz

	Close	Prev	High	Low
March	[illegible]	[illegible]	[illegible]	[illegible]
May	[illegible]	[illegible]	[illegible]	[illegible]
July	[illegible]	[illegible]	[illegible]	[illegible]
Sept	[illegible]	[illegible]	[illegible]	[illegible]
Dec	[illegible]	[illegible]	[illegible]	[illegible]
Jan	[illegible]	[illegible]	[illegible]	[illegible]
March	[illegible]	[illegible]	[illegible]	[illegible]
May	[illegible]	[illegible]	[illegible]	[illegible]
July	[illegible]	[illegible]	[illegible]	[illegible]
Sept	[illegible]	[illegible]	[illegible]	[illegible]

SUGAR WORLD "11" 112,000 lbs, cents/lb

	Close	Prev	High	Low
May	[illegible]	[illegible]	[illegible]	[illegible]
July	[illegible]	[illegible]	[illegible]	[illegible]
Sept	[illegible]	[illegible]	[illegible]	[illegible]
Oct	[illegible]	[illegible]	[illegible]	[illegible]
Jan	[illegible]	[illegible]	[illegible]	[illegible]
March	[illegible]	[illegible]	[illegible]	[illegible]
May	[illegible]	[illegible]	[illegible]	[illegible]
July	[illegible]	[illegible]	[illegible]	[illegible]

CHICAGO

LIVE CATTLE 40,000 lb, cents/lb

	Close	Prev	High	Low
April	[illegible]	[illegible]	[illegible]	[illegible]
June	[illegible]	[illegible]	[illegible]	[illegible]
August	[illegible]	[illegible]	[illegible]	[illegible]
Oct	[illegible]	[illegible]	[illegible]	[illegible]
Dec	[illegible]	[illegible]	[illegible]	[illegible]
Feb	[illegible]	[illegible]	[illegible]	[illegible]
April	[illegible]	[illegible]	[illegible]	[illegible]

LIVE HOGS 30,000 lb, cents/lb

	Close	Prev	High	Low
April	[illegible]	[illegible]	[illegible]	[illegible]
June	[illegible]	[illegible]	[illegible]	[illegible]
July	[illegible]	[illegible]	[illegible]	[illegible]
August	[illegible]	[illegible]	[illegible]	[illegible]
Oct	[illegible]	[illegible]	[illegible]	[illegible]
Feb	[illegible]	[illegible]	[illegible]	[illegible]
April	[illegible]	[illegible]	[illegible]	[illegible]
June	[illegible]	[illegible]	[illegible]	[illegible]

MAIZE 5,000 bu min, cents/56lb bushel

	Close	Prev	High	Low
March	[illegible]	[illegible]	[illegible]	[illegible]
May	[illegible]	[illegible]	[illegible]	[illegible]
July	[illegible]	[illegible]	[illegible]	[illegible]
Sept	[illegible]	[illegible]	[illegible]	[illegible]
Dec	[illegible]	[illegible]	[illegible]	[illegible]
March	[illegible]	[illegible]	[illegible]	[illegible]
May	[illegible]	[illegible]	[illegible]	[illegible]

PORK BELLIES 38,000 lb, cents/lb

	Close	Prev	High	Low
March	[illegible]	[illegible]	[illegible]	[illegible]
May	[illegible]	[illegible]	[illegible]	[illegible]
July	[illegible]	[illegible]	[illegible]	[illegible]
August	[illegible]	[illegible]	[illegible]	[illegible]
Feb	[illegible]	[illegible]	[illegible]	[illegible]

SOYABEANS 5,000 bu min, cents/60lb bushel

	Close	Prev	High	Low
March	[illegible]	[illegible]	[illegible]	[illegible]
May	[illegible]	[illegible]	[illegible]	[illegible]
July	[illegible]	[illegible]	[illegible]	[illegible]
August	[illegible]	[illegible]	[illegible]	[illegible]
Sept	[illegible]	[illegible]	[illegible]	[illegible]
Nov	[illegible]	[illegible]	[illegible]	[illegible]
Jan	[illegible]	[illegible]	[illegible]	[illegible]
March	[illegible]	[illegible]	[illegible]	[illegible]

SOYABEAN MEAL 100 tons, $/ton

	Close	Prev	High	Low
March	[illegible]	[illegible]	[illegible]	[illegible]
May	[illegible]	[illegible]	[illegible]	[illegible]
July	[illegible]	[illegible]	[illegible]	[illegible]
August	[illegible]	[illegible]	[illegible]	[illegible]
Sept	[illegible]	[illegible]	[illegible]	[illegible]
Oct	137.3	137.7	137.5	136.3
Dec	137.7	137.8	138.2	137.1
Jan	138.5	138.1	138.5	138.7
March	138.5	138.7	138.5	138.5

SOYABEAN OIL 60,000lb, cents/lb

	Close	Prev	High	Low
March	15.47	15.51	15.52	15.38
May	15.79	15.78	15.75	15.62
July	16.05	16.11	16.09	15.97
August	16.16	16.22	16.20	16.08
Sept	16.20	16.32	16.32	16.23
Oct	16.35	16.41	16.42	16.25
Dec	16.65	16.66	16.67	16.52
Jan	16.57	16.65	16.65	16.60

WHEAT 5,000 bu min, cents/60 lb bushel

	Close	Prev	High	Low
March	291.6	289.2	292.4	288.4
May	281.4	278.2	281.4	278.0
July	258.4	258.2	259.0	275.0
Sept	258.4	258.4	259.0	258.2
Dec	264.4	264.6	264.8	262.2

SPOT PRICES—Chicago loose lard 15.00 (same) cents per pound. Handy and Harman silver bullion 558.5 (557.5) cents per troy ounce.

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CURRENCIES, MONEY & CAPITAL MARKETS

FOREIGN EXCHANGES

Further rise for sterling

STERLING CONTINUED to improve in currency markets yesterday as the market showed its approval of measures announced in yesterday's UK budget. Its exchange rate index finished at 72.1 up from an opening level of 71.9 and a sharp rise from Monday night's close of 71.4. The firmer opening was the result of heavy overnight demand in the Far East as foreign investors acted on the opinion that sterling had further to rise.

Consequently early trading in London was a little restrained as sterling approached the level which previously had prompted intervention by the Bank of England. However the pound moved ahead once more during the afternoon and broke through the $1.60 level. But resistance hardened around this point, with dealers expecting an imminent cut in UK clearing bank base rates to take some of the steam out of sterling's upward turn.

Other factors providing underlying support included higher North Sea oil prices and another opinion poll which showed the Conservative Party with a clear lead over other parties.

The pound closed at $1.5990 up from $1.5840 but eased back in New York soon after the close in London. Elsewhere it rose to DM 2.94 from DM 2.91 and Y243.0 from Y240.25. Against the Swiss franc it was firmer at SFr 2.46 from SFr 2.4350 and FFr 9.7850 compared with FFr 9.69.

The dollar recovered from a weaker start on better than expected US housing starts in February. These showed a rise of 2.6 per cent.

The dollar closed at DM 1.8395 from DM 1.8375, having been as low as DM 1.8270. Against the yen it was higher at Y151.95 from Y151.60 and SFr 1.5385 from SFr 1.5375. It was also stronger in terms of the French franc at FFr 6.12 from FFr 6.1175. On Bank of England figures, the dollar's exchange rate index closed at 103.2 from 103.4.

D-MARK—Trading range against the dollar in 1986-87 is 2.4710 to 1.7870. February average 1.8234. Exchange rate index 147.2 against 140.7 six months ago.

There was no intervention by the Bundesbank at yesterday's fixing in Frankfurt when the dollar was fixed at DM 1.8327 down from 1.8426. Trading was very quiet in the absence of any fresh news and with dealers still wary about central bank intentions so the dollar was confined to a narrow range.

Today's second revision to US fourth quarter GNP also kept many people on the sidelines.

Attention elsewhere was focused on sterling with investors hoping for a further rise in sterling's value as a result of confidence raised after the UK budget.

JAPANESE YEN—Trading range against the dollar in 1986-87 is 202.70 to 151.30. February average 153.36. Exchange rate index 211.3 against 215.8 six months ago.

Trading was rather quiet in Tokyo yesterday. Once again the dollar was confined to a narrow range. However its failure to hold on to a firmer trend started last week, because of fears of central bank intervention, tended to push it weaker so that it finished against the yen at Y151.50 from Y151.55 in New York and Y152.30 in Tokyo on Monday. There were no fresh economic data to influence the market. Sterling remained firm ahead of the UK budget in quiet trading.

EMS EUROPEAN CURRENCY UNIT RATES

	Ecu central rates	Currency amounts against Ecu March 17	% change from central rate	% change adjusted for divergence	Divergence limit %
Belgian Franc	42.4582	42.9902	+1.25	+0.90	±1.5344
Danish Krone	7.85212	7.811951	−0.51	−0.86	±1.6404
German D-Mark	2.05853	2.07493	+0.80	+0.45	±1.0981
French Franc	6.90403	6.90473	+0.01	−0.34	±1.3674
Dutch Guilder	2.31943	2.34489	+1.10	+0.75	±1.5012
Irish Punt	0.768411	0.779500	+1.44	+1.09	±1.6684
Italian Lira	1483.58	1474.48	−0.61	−0.61	±4.0752

Changes are for Ecu, therefore positive change denotes a weak currency. Adjustment calculated by Financial Times.

£ IN NEW YORK

Mar 17	Latest	Previous Close
£ Spot	1.5970-1.5980	1.5865-1.5875
1 month	0.52-0.49 pm	0.51-0.50 pm
3 months	1.38-1.33 pm	1.29-1.26 pm
12 months	4.45-4.35 pm	4.30-4.20 pm

Forward premiums and discounts apply to the U.S. dollar.

STERLING INDEX

	Mar. 17	Previous
8.30 am	71.9	71.6
9.00 am	71.9	71.6
10.00 am	71.9	71.4
11.00 am	71.9	71.5
Noon	71.9	71.5
1.00 pm	71.7	71.5
2.00 pm	71.9	71.4
3.00 pm	71.9	71.4
4.00 pm	72.1	71.4

CURRENCY RATES

Mar. 17	Bank rate %	Special Drawing Rights	European Currency Unit
Sterling	—	0.796800	0.711951
U.S. Dollar	5.5	1.26994	1.13378
Canadian $	7.54	*	1.48843
Austrian Sch.	4	16.3508	14.5816
Belgian Franc	8	48.1752	42.9902
Danish Krone	7	8.76259	7.81176
Deutsche Mark	3.0	2.32742	2.07493
Neth. Guilder	4½	2.62624	2.34489
French Franc	9½	7.73647	6.90473
Italian Lira	12	N/A	1474.18
Japanese Yen	2½	192.269	171.371
Norway Krone	8	8.82608	7.87128
Spanish Peseta	—	N/A	145.521
Swedish Krona	7½	8.14730	7.25961
Swiss Franc	3.5	1.94555	1.73525
Greek Drach.	20½	170.680	152.335
Irish Punt	—	N/A	0.779500

*CS/SDR rate for Mar. 16: 1.66505

CURRENCY MOVEMENTS

March 17	Bank of England Index	Morgan Guaranty Changes %
Sterling	72.1	−21.6
U.S. Dollar	103.2	−4.0
Canadian Dollar	79.3	−9.1
Austrian Schilling	139.1	+10.3

POUND SPOT—FORWARD AGAINST THE POUND

Mar. 17	Day's spread	Close	One month	% p.a.	Three months	% p.a.
US	1.5905-1.6010	1.5985-1.5995	0.50-0.45 c pm	3.56	1.27-1.22 pm	3.11
Canada	2.0890-2.1035	2.1015-2.1025	0.58-0.46 c pm	8.68	1.45-1.30 pm	2.62
Neth'lands	3.29¾-3.32½	3.30-3.31	1½-1¼ c pm	4.99	3⅝-3¼ pm	4.16
Belgium	60.45-60.86	60.70-60.80	16-11 c pm	2.67	40-30 pm	2.30
Denmark	10.98½-11.05¾	11.04½-11.05½	1¼-1⅞ ore dis	−1.70	3⅞-4⅝ dis	−1.54
Ireland	1.0899-1.0989	1.0970-1.0980	0.27-0.42 p dis	−3.77	0.80-1.10 dis	−3.46
W. Germany	2.91¾-2.94½	2.93½-2.94½	1⅝-1½ pf pm	6.38	4⅛-4 pm	5.61
Portugal	224.56-226.84	225.85-226.85	50-142 c dis	−5.09	247-360 dis	−5.36
Spain	204.62-206.05	205.65-205.95	74-105 c dis	−5.22	207-257 dis	−4.51
Italy	2072½-2090½	2087½-2088½	2-par lire pm	0.57	2pm-par pm	0.19
Norway	11.04¾-11.14¼	11.09½-11.10½	4⅜-4¾ ore dis	−4.80	12¾-13⅝ dis	−4.91
France	9.71-9.79½	9.78-9.79	1⅞-1⅝ c pm	0.88	4⅛-3¾ pm	1.42
Sweden	10.20¾-10.26¾	10.24-10.25	1¼-2⅛ ore dis	−2.27	3⅝-4⅛ dis	−1.51
Japan	240¾-243½	242½-243½	1¼-1⅛ y pm	5.86	3⅝-3⅛ pm	5.35
Austria	20.49-20.60	20.57-20.60	10½-9⅝ gro pm	5.87	26¾-24⅞ pm	4.98
Switzerland	2.43¾-2.46¼	2.45½-2.46½	1¼-1⅛ c pm	5.79	3½-3¼ pm	5.49

Belgian rate is for convertible francs. Financial franc 60.95-61.05. Six-month forward dollar 2.29-2.23 c pm 12-month 4.22-4.02 c pm.

DOLLAR SPOT—FORWARD AGAINST THE DOLLAR

Mar. 17	Day's spread	Close	One month	% p.a.	Three months	% p.a.
UK†	1.5905-1.6010	1.5985-1.5995	0.50-0.45c pm	3.56	1.27-1.22pm	3.11
Ireland†	1.4540-1.4555	1.4545-1.4555	1.02-0.96c pm	8.16	2.52-2.38 pm	6.73
Canada	1.3125-1.3160	1.3125-1.3135	0.05-0.08c dis	−0.59	0.14-0.19 dis	−0.50
Netherlands	2.0655-2.0750	2.0675-2.0685	0.20-0.17c pm	1.07	0.54-0.49pm	0.99
Belgium	37.87-38.05	37.95-38.05	2-4c dis	−0.95	6-11 dis	−0.90
Denmark	6.88¼-6.91½	6.90¾-6.91¼	2.10-2.80ore dis	−4.26	6.90-7.60 dis	−4.20
W. Germany	1.8270-1.8400	1.8390-1.8400	0.42-0.39pf pm	2.65	1.14-1.09 pm	2.43
Portugal	141-141¾	141¼-141½	80-130c dis	−8.94	270-340 dis	−8.65
Spain	128.05-128.75	128.60-128.70	85-95 c dis	−8.40	235-255 dis	−7.63
Italy	1298-1307	1305¾-1306¼	3⅛-3⅞lire dis	−3.22	9½-10½dis	−3.07
Norway	6.92-6.95¾	6.94¾-6.95¼	4.45-5.15ore dis	−8.47	13.80-14.30dis	−8.10
France	6.08¾-6.12¾	6.11¾-6.12¼	0.72-0.82c dis	−1.51	2.35-2.55 dis	−1.61
Sweden	6.39¾-6.41¾	6.40½-6.41	2.90-3.20ore dis	−5.71	7.40-7.80 dis	−4.74
Japan	151.00-152.10	151.90-152.00	0.29-0.26y pm	2.18	0.87-0.82 pm	2.23
Austria	12.84-12.91	12.86-12.86½	2.75-2.25gro pm	2.33	6.50-5.50 pm	1.86
Switzerland	1.5285-1.5390	1.5380-1.5390	0.32-0.27c pm	2.31	0.90-0.85 pm	2.31

† UK and Ireland are quoted in US currency. Forward premiums and discounts apply to the US dollar and not to the individual currency. Belgian rate is for convertible francs. Financial franc 38.10-38.20.

EURO-CURRENCY INTEREST RATES

Mar. 17	Short term	7 Days' notice	One Month	Three Months	Six Months	One Year
Sterling	10½-10¾	10½-10¾	9⅞-10⅛	9⅞-9¾	9⅝-9½	9⅞-9⅛
U.S. Dollar	6⅛-6⅜	6¼-6⅜	6⅜-6½	6⅜-6½	6⅜-6½	6⅝-6¾
Can. Dollar	6⅝-6⅞	6⅞-7	6⅞-6⅞	6⅞-7	6⅞-7	7⅛-7¼
D. Guilder	5⅝-5⅞	5⅝-5⅞	5⅜-5⅝	5⅜-5⅝	5⅛-5⅜	5⅛-5⅜
Sw. Franc	1⅝-1¼	¾-1	4⅛-4⅜	4⅛-4⅜	4-4⅛	4-4⅛

FINANCIAL FUTURES

PSBR raises rate hopes

INITIAL REACTION to the Budget was very good among traders on the London International Financial Futures Exchange yesterday. Dealers were pleased that strong emphasis had been placed on a low public sector borrowing requirement of £4bn for the next financial year, leaving room for cuts in UK bank base rates.

The mood was set in the morning when a net repayment of £300m was announced in the February PSBR, and a borrowing requirement of only £100m for the first 11 months of the present financial year. This increased expectations of a significant undershoot in the Treasury's forecast £7.1bn PSBR for the full year.

Dealers suggested the Chancellor had left room for further reductions in taxation from any improvement in Government revenues, noting that the Budget assumed a price of $15 a barrel for North Sea oil, compared with present prices of around $18.

The PSBR target of £4bn was about £1bn less than generally expected, and boosted hopes of an immediate 1 per cent cut in bank base rates, and possibly as much as 1½ per cent. This contrasted with the more cautious attitude in the cash money market, where dealers were not entirely convinced the Bank of England would sanction an early cut of more than ½ per cent.

Long term gilt futures for June delivery opened firm at 123-01, supported by the strength of sterling. This was near the day's low of 122-31, and after the encouraging PSBR news the contract moved up to close at 124-17, just below the day's peak of 124-18, and compared 122-25 at Monday's close.

Three-month sterling deposit futures were also supported by hopes of lower UK interest rates, and the strength of the pound, which briefly moved above $1.60. June delivery opened at 90.80, and finished slightly below the day's high, at 90.85, compared with the previous settlement of 90.75.

LIFFE £/$ OPTIONS
£25,000 (cents per £1)

Strike Price	Calls—Last Apr.	May	June	Sept.	Puts—Last Apr.	May	June	Sept.
1.30	—	—	29.70	29.70	—	—	0.00	0.08
1.35	—	—	24.70	24.70	—	—	0.01	0.23
1.40	19.70	19.70	19.70	19.70	0.00	0.01	0.06	0.60
1.45	14.70	14.70	14.70	14.70	0.00	0.07	0.27	1.32
1.50	9.70	9.70	9.70	9.95	0.04	0.39	0.88	2.57
1.55	4.80	5.27	5.71	6.85	0.47	1.40	2.23	4.47
1.60	1.61	2.45	3.06	4.46	2.28	3.58	4.58	7.08

Estimated volume total, Calls 0, Puts 0
Previous day's open int. Calls 769, Puts 1,135

LONDON SE £/$ OPTIONS
£12,500 (cents per £1)

Strike Price	Calls—Last Apr.	May	June	Sep.	Puts—Last Apr.	May	June	Sep.
1.35	—	—	13.90	13.90	—	—	0.80	1.60
1.40	17.90	17.90	17.80	17.70	0.25	0.30	0.45	1.05
1.45	12.90	12.90	12.90	12.70	0.30	0.60	0.80	1.50
1.50	9.50	9.50	9.50	9.80	0.35	0.60	0.90	2.10
1.55	4.55	5.05	5.40	6.25	0.70	1.40	2.00	3.80
1.60	1.40	2.15	2.65	3.75	2.35	3.60	4.40	6.40
1.65	0.50	0.90	1.20	2.20	6.20	7.30	7.90	9.70

Previous day's open int: Calls 1,107, Puts 443
Volume: 259

US TREASURY NOTES (CBT)
$100,000 32nds of 100%

	Latest	High	Low	Prev.
Mar.	104-17	104-18	104-17	104-21
June	103-25	103-26	103-26	103-29
Sept.	103-02	103-02	103-02	103-06
Dec.	—	—	—	102-17

SWISS FRANC (IMM)
SFr125,000 $ per SFr

	Latest	High	Low	Prev.
June	0.6589	0.6577	0.6556	0.6556
Sep.	0.6609	0.6610	0.6600	0.6598
Dec.	—	—	—	—
Mar.	—	—	—	0.6443

MONEY MARKETS

No base rate hint

SENTIMENT ON the London money market received a boost ahead of yesterday's Budget by news of a £300m repayment in the February UK public sector borrowing requirement, and a total PSBR for the first 11 months of the financial year of only £100m.

This, coupled with the Chancellor's target of a PSBR of only £4bn in the next financial year, increased hopes of a cut in bank base rates of 1 per cent. Dealers were divided on whether this would be achieved in one move however, and received no hint from the Bank of England's market operations yesterday.

Three-month interbank fell to 9$\frac{11}{16}$-9$\frac{9}{16}$ per cent from 9$\frac{15}{16}$-9$\frac{13}{16}$ per cent.

UK clearing bank base lending rate 10½ per cent since March 10

Discount houses remained reluctant to sell bills to the authorities at present official intervention rates, in expectation of an early cut, but much of yesterday's £400m shortage was not with the houses. This was because maturing bills are not being renewed at present, in expectation of lower interest rates, with borrowers preferring to use overdraft facilities.

After the houses squared their books the interbank remained very tight, pushing bid rates for overnight money up to 35 per cent.

The Bank of England initially forecast a money market shortage of £450m, but revised this to £400m in the afternoon. Total help of £136m was provided. The authorities did not operate in the market in the morning, but in the afternoon bought £16m bills outright, by way of £2m local authority bills in band 1 at 10⅝ per cent and £14m bank bills in band 1 at 10⅝ per cent.

Late assistance of around £120m was also provided.

Bills maturing in official hands, repayment of late assistance and a take-up of Treasury bills drained £650m, with bank balances below target absorbing £50m. These outweighed Exchequer transactions adding £200m to liquidity and a fall in the note circulation of £50m.

In Copenhagen the Danish Central Bank cut its overnight money market rate to 10½ per cent from 11 per cent. The overnight rate was raised three times in the week before the realignment of the European Monetary System in January, from 9½ per cent to 14 per cent, but was cut to 11 per cent following the realignment.

In Helsinki the Bank of Finland cut its call money rate for overnight credits to 11.4 per cent from 11.5 per cent. The rate for call money deposits remains at 7.5 per cent. On March 5 call money for credits was reduced from 11.6 per cent and for deposits from 8 per cent.

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LONDON SHARE SERVICE

CANADIANS

High	Low	Stock	Price	+ or −	Div Net	C'vr	Y'ld Gr's
32½p	20p	♥Abbot Energy Corp.	21½p	.....	—	—	—
18½	380p	♥Amer. Barrick Res.	18⅛	−⅛	—	—	—
19⅜	13⅛	Bk. Montreal ‖	16½	−¼	$2.00	—	5.9
10½	595p	Bk. Nova Scot.‖	914p	−10	72c	—	3.8
20¼	17⅝	BCE ‖	19⅞	−⅛	$2.40	—	5.8
918p	457p	♥Bow Valley‖	884p	−10	10c	—	0.5
17⅝	11¼	♥Brascan‖	17⅜	+⅛	88c	—	2.4
429p	233p	♥Breakwater Res.	418p	+4	—	—	—
11⅝	820p	Can.Imp.Bk. $2	10⅜	−⅛	$1.08	—	5.0
11¾	692p	Can. Pacific ‖	11⅛	−⅛	48c	—	2.0
40½	35	Do. 4pc Deb £100	40	.....	4%	—	10.0
21½	875p	♥Echo Bay Mines	21⅝	.....	20c	—	0.5
636p	289p	♥Granges Explo‖	633p	−3	—	—	—
33p	10p	♥Gt Pacific Res.	13p	−½	—	—	—
13	620p	♥Gulf Canada‖	12⅞	.....	52c	—	1.9
15	10½	♥Hawker Sid Can‖	13	.....	96c	—	3.5
750p	100p	Heelys Group	621p	−15	—	—	—
15⅝	11	Hudson's Bay ‖	13½	+⅛	60c	—	2.2
30⅜	16⅛	♥Imperial Oil‖	30½	−⅛	$1.60	—	2.5
11⅝	731p	Inco‖	967pm	−30	US$0.20	—	1.4
20	550p	♥Intl. Corona Res	19	−⅛	—	—	—
701p	500p	♥Inland Nat. Gas $1	621p	−9	60c	—	4.6
258p	122p	♥Muscocho Explo.	257p	−1	—	—	—
22⅝	748p	♥Nat Business Syst.‖	932p	−17	—	—	—
13½	965p	♥Rio Algom	16⅝	−⅛	65c	—	2.9
19⅜	13⅛	Royal Bk. Can. ‖	16	−⅛	$2.00	—	6.0
46⅛	30⅜	Seagram‖	45⅞	−⅛	US$1.00	—	1.5
14⅞	10½	Toronto-Dom. Bk.‖	14	.....	84c	—	2.9
10	753p	♥Trans Can Pipe	10	.....	$1.12	—	5.4
223p	125p	Varity Corp‖	153p	−13	—	—	—

BUILDING, TIMBER, ROADS—Cont

High	Low	Stock	Price	+ or −	Div Net	C'vr	Y'ld Gr's	P/E
77	25	Miller (Stan) 10p	70	.....	d1.0	—	2.0	—
154	109	Monk (A)	150	.....	♦6.5	0.1	6.1	—
449	308	Mowlem (J)	440	+4	§16.0	1.5	5.1	18.4
935	790	Newarthill £1	935	+2	s11.0	4.4	1.7	19.1
196	92	Newman-Tonks	189	−1	7.2	1.6	5.4	15.8
392	160	Nottingham Brick	385	+4	♦8.0	2.1	2.9	21.9
385	112	Persimmon 10p	383	−1	6.3	4.4	2.3	13.7
156	68	Phoenix Timber	148	+2	—	—	—	—
410	285	Pochins	398	.....	14.0	2.7	5.1	10.1
238	90	Polypipe 10p	231	.....	†h1.65	3.2	1.0	43.7
824	442	RMC	820	+3	†14.0	3.5	2.4	16.7
104½	21	Raine Inds. 10p	102	.....	0.82	2.9	1.1	36.2
148	85	‡Ramus	148	.....	†d5.4	2.0	5.2	13.2
200	22	‡Randsworth Tst	147	−2	0.25	3.9	0.2	—
•500	332	Redland	471½	+1½	†11.95	2.4	3.5	14.2
63	32	Rowlinson 10p	60	−1	†d0.72	5.9	1.7	13.6
385	188	Ruberoid	378	−2	†8.6	3.2	3.2	13.5
223	134	Rugby P. Cement	219	.....	†6.4	1.7	4.1	17.1
231	151	Sandell Perkins	228	−1	§3.8	3.4	2.3	17.7
188	88	Sharpe & Fisher	188	+2	3.0	♦	2.3	♦
790	465	Streeter (Wm)	790	.....	12.0	5.2	2.1	9.5
107	70	Smart (J.) 10p	107	+1	d4.75	1.5	6.3	14.5
562	344	Tarmac 50p	528	+14	F11.09	3.0	3.0	18.5
415	52	‡Tay Homes	402	+2	5.25	4.0	1.8	19.0
383	236	Taylor Woodrow	374	.....	†h8.63	2.4	3.2	15.6
248	132½	Tilbury Group	248	+1	F5.9	2.6	3.4	18.7
301	163	Travis & Arnold	299	+1	†h4.26	3.1	2.0	18.9
104	72	Trent Holdings 10p	104	+1	1.15	5.6	1.6	15.6
272	136	Turriff Corp.	271	−1	7.0	—	3.6	—
62	19	Tysons (Contr.) 10p	54	+2	—	—	—	—
123	42	‡Utd Ceramic Dists 20p	107	+2	3.75	1.7	4.9	16.9
533	195	Vibroplant	598	+5	†10.5	3.3	3.1	14.5
129	99	Ward Group 5p	128	−1	R3.7	2.5	4.1	13.7
555	246	Ward Hldgs. 10p	553	+3	8.27	5.1	2.1	13.0
118	58	Warrington (Thos.)	116	.....	d1.0	—	1.2	—
254	172	Watts Blake	252	.....	†4.6	3.1	2.6	17.2
214	150	Westbury 10p	211	+1	R4.1	3.1	2.7	16.7
175	67	Western Bros	162	.....	♦	—	—	♦
•177	38	Wiggins Group	168	.....	m1.25	6.8	1.0	14.9
312	157	Wilson (Connolly)	312	.....	†hd2.0	6.8	0.9	23.0
248	120	Wimpey (Geo)	239	+2	†5.75	3.3	2.2	17.8

BANKS, HP & LEASING

Hire Purchase, Leasing, etc.

BEERS, WINES & SPIRITS

BUILDING, TIMBER, ROADS

CHEMICALS, PLASTICS

DRAPERY AND STORES

ELECTRICALS

ELECTRICALS—Cont.

ENGINEERING

ENGINEERING—Continued

FOOD, GROCERIES, ETC

HOTELS AND CATERERS

INDUSTRIALS (Miscel.)

INDUSTRIALS—Continued

INSURANCES

INSURANCES—Continued

1986/87 High	Low	Stock	Price	+ or −	Div Net	C'vr	Y'ld Gr's	P/E
348	220	PWS Holdings 10p	311	.....	9.25	2.9	4.2	11.6
386	200	Pearl Group 5p	351	+1	8.8	—	3.5	—
950	714	Prudential	893	+10	26.0	—	4.1	—
499	362	Refuge 5p	487	+4	13.75	—	4.0	—
£10¾	762	Royal	909	−2	31.0	—	4.5	—
408	299	Sedgwick Group 10p	326xd	+5	12.0	♦	5.2	♦
275	194	Steel Burrill J.10p	244	−3	7.0	2.1	4.0	16.3
505	347	Stewart Wr. 20p	465	.....	11.0	2.1	3.3	18.9
450	285	Sturge Hldgs 20p	450xc	+1	6.0	2.5	1.9	29.5
805	520	Sun Alliance	788	+1	17.5	—	3.1	—
£10¼	778	Sun Life 5p	£10	.....	23.74	—	3.3	—
£52½	£36½	Taisho M EDR	£49¾	+1¾	010%	—	0.9	—
£24½	£15½	Torchmark $1.00	£20¾	+½	60c	—	1.9	—
310	120	Trade Indemnity	308	+3	3.25	—	1.5	—
£40⅞	£29¼	Travelers $2.25	£31½	−⅛	$2.28	—	4.7	—
£33¾	£25⅝	USLIFE Corp. $1.0	£25¾	−½	$1.20	3.2	3.1	10.2
595	423	Utd Friendly B 10p	595	.....	17.2	—	4.1	—
492	393	Willis Faber 12½p	434	+4	8.75	2.9	2.8	16.5
57	38	Windsor Secs. 10p	55	.....	0.7	1.5	1.8	50.9

LEISURE

[illegible]

MOTORS, AIRCRAFT TRADES

Motors and Cycles

[illegible]

Commercial Vehicles

[illegible]

Components

[illegible]

Garages and Distributors

[illegible]

NEWSPAPERS, PUBLISHERS

[illegible]

PAPER, PRINTING, ADVERTISING

[illegible]

PAPER, PRINTING—Continued

[illegible]

PROPERTY

[illegible]

SHIPPING

[illegible]

SHOES AND LEATHER

[illegible]

SOUTH AFRICANS

[illegible]

TEXTILES

[illegible]

TEXTILES—Cont.

[illegible]

TOBACCOS

[illegible]

TRUSTS, FINANCE, LAND

Investment Trusts

[illegible]

FINANCE, LAND—Cont.

[illegible]

Finance, Land, etc

[illegible]

OIL AND GAS

[illegible]

OIL AND GAS—Continued

[illegible]

OVERSEAS TRADERS

[illegible]

PLANTATIONS

Rubbers, Palm Oil

[illegible]

Teas

[illegible]

MINES

Central Rand

[illegible]

Eastern Rand

[illegible]

Far West Rand

[illegible]

O.F.S.

[illegible]

Diamond and Platinum

[illegible]

Central African

[illegible]

Finance

[illegible]

Australians

[illegible]

MINES—Continued

[illegible]

Tins

[illegible]

Miscellaneous

[illegible]

THIRD MARKET

1986/87 High	Low	Stock	Price	+ or −	Div Net	C'vr	Y'ld Gr's	P/E
232	180	Abetsco Group 10p	222	.....	3.2	—	2.0	—
50	10	Aberdeen Am Pet 10p	34	−1	—	—	—	—
120	112	Allied Ins. Brokers	112	.....	13.5	2.5	4.4	13.0
54	36	Catalyst Comm. 5p	48	+1	—	—	—	—
68	24	Corton Beach 10p	65	.....	—	—	—	32.3
128	121	Edenspring Investment	123	−2	—	—	—	72.9
63	10	Eglinton Oil 1r.5p	39	.....	—	—	—	—
41	8	Do. Warrants	21	+1	—	—	—	—
25	17	Publishing Hldgs.5p	24	−1	—	—	—	13.9
55	46	Theme Holdings	53	.....	—	—	—	26.9
135	116	Unit Group	117	.....	4.6	2.5	5.5	(8.4)

NOTES

Unless otherwise indicated, prices and net dividends are in pence and denominations are 25p. Estimated price/earnings ratios and covers are based on latest annual reports and accounts and, where possible, are updated on half-yearly figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on profit after taxation and unrelieved ACT where applicable; bracketed figures indicate 10 per cent or more difference if calculated on "nil" distribution. Covers are based on "maximum" distribution; this compares gross dividend costs to profit after taxation, excluding exceptional profits/losses but including estimated extent of offsettable ACT. Yields are based on middle prices, are gross, adjusted to ACT of 29 per cent and allow for value of declared distribution and rights.

- ● "Tap Stock".
- * Highs and Lows marked thus have been adjusted to allow for rights issues for cash.
- † Interim since increased or resumed.
- ‡ Interim since reduced, passed or deferred.
- ‡‡ Tax-free to non-residents on application.
- ♦ Figures or report awaited.
- ♥ Not officially UK listed; dealings permitted under Rule 535(4)(a).
- ♣ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Dealt in under Rule 535(3).
- # Price at time of suspension.
- ¶ Indicated dividend after pending scrip and/or rights issue: cover relates to previous dividend or forecast.
- ♦ Merger bid or reorganisation in progress.
- ♣ Not comparable.
- ♦ Same interim: reduced final and/or reduced earnings indicated.
- ♦ Forecast dividend; cover on earnings updated by latest interim statement.
- ‡ Cover allows for conversion of shares not now ranking for dividends or ranking only for restricted dividend.
- ☆ Cover does not allow for shares which may also rank for dividend at a future date. No P/E ratio usually provided.
- ¤ No par value.

B.Fr. Belgian Francs. Fr. French Francs. ## Yield based on assumption Treasury Bill Rate stays unchanged until maturity of stock. a Annualised dividend. b Figures based on prospectus or other offer estimate. c Cents. d Dividend rate paid or payable on part of capital, cover based on dividend on full capital. e Redemption yield. f Flat yield. g Assumed dividend and yield. h Assumed dividend and yield after scrip issue. j Payment from capital sources. k Kenya. m Interim higher than previous total. n Rights issue pending. q Earnings based on preliminary figures. s Dividend and yield exclude a special payment. t Indicated dividend: cover relates to previous dividend, P/E ratio based on latest annual earnings. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. v Subject to local tax. x Dividend cover in excess of 100 times. y Dividend and yield based on merger terms. z Dividend and yield include a special payment: Cover does not apply to special payment. A Net dividend and yield. B Preference dividend passed or deferred. C Canadian. E Minimum tender price. F Dividend and yield based on prospectus or other official estimates for 1986-87. G Assumed dividend and yield after pending scrip and/or rights issue. H Dividend and yield based on prospectus or other official estimates for 1986. K Dividend and yield based on prospectus or other official estimates for 1987-88. L Estimated annualised dividend, cover and p/e based on latest annual earnings. M Dividend and yield based on prospectus or other official estimates for 1985-86. N Dividend and yield based on prospectus or other official estimates for 1987. P Figures based on prospectus or other official estimates for 1987. Q Gross. R Forecast annualised dividend, cover and p/e based on prospectus or other official estimates. T Figures assumed. W Pro forma figures. Z Dividend total to date. Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xc ex capital distribution.

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

Stock	Price	+ or −
Albany Inv 20p	76	.....
Craig & Rose £1	£15¾	.....
Finlay Pkg. 5p	68	.....
Holt (Jos) 25p	900	+5
IoM Stm. £1	[illegible]	.....
IRISH		
Fund 11¼% 1988	£97¾	.....
Nat. 9¾% 84/89	£93¾	.....
Fin. 13% 97/02	£102¾	.....
Arnotts	340	.....
CPI Hldgs	80	.....
Carrol Inds.	131	−2
Dublin Gas	10	.....
Hall (R. & H.)	108	.....
Heiton Hldgs.	33	.....
Irish Ropes	180	.....
Unidare	385	.....

TRADITIONAL OPTIONS

3-month call rates

Industrials	p
Allied-Lyons	35
Amstrad	16
BAT	47
BOC Grp	42
BSR	12
BTR	30
Babcock	19
Barclays	47
Beecham	48
Blue Circle	62
Boots	25
Bowaters	37
Brit Aerospace	58
Brit. Telecom	20
Burton Ord	23
Cadburys	22
Charter Cons.	30
Comm Union	29
Courtaulds	35
FNFC	20
Gen Accident	80
[illegible]	18
Glaxo	110
Grand Met	40
GUS 'A'	100
Guardian	85
GKN	30
Hanson Tst.	15
Hawker Sidd	50
ICI	80
Jaguar	52
Ladbroke	40
Legal & Gen	25
Lex Service	35
Lloyds Bank	48
Lucas Inds	55
Marks & Spencer	18
Midland Bk	55
Morgan Grenfell	35
NEI	8
Nat West Bk	55
P & O Dfd	55
Plessey	20
Polly Peck	20
Racal Elect	20
RHM	30
Rank Org Ord	55
Reed Intnl	42
STC	20
Sears	12
TI	55
TSB	8
Tesco	42
Thorn EMI	50
Trust Houses	20
Turner Newall	24
Unilever	150
Vickers	55
Wellcome	50
Property	
Brit Land	17
Land Securities	30
MEPC	32
Peachey	30
Oils	
BOM	3½
Brit Petroleum	60
Burmah Oil	38
Charterhall	4
Premier	4
Shell	75
Tricentrol	11
Ultramar	17
Mines	
Cons Gold	65
Lonrho	24
Rio T Zinc	65

A selection of Options traded is given on the London Stock Exchange Report Page.

LONDON STOCK EXCHANGE

Account Dealing Dates

*First Dealings	Option Declarations	Last Dealings	Account Day
Mar 9	Mar 19	Mar 20	Mar 30
Mar 23	Apr 2	Apr 3	Apr 13
Apr 6	Apr 23	Apr 24	May 5

* New time dealings may take place from 9.00 am two business days earlier.

Budget speech brings surge in Government bonds and new peak in equity market

The Budget speech from the UK Chancellor of the Exchequer was greeted by a confident surge in both government bond and share prices last night. While trading was light in the wake of Mr Lawson's speech, both sectors rose sharply, setting the scene for a more considered response this morning.

Equities, already very firm at 3.30 pm as the City waited for the Chancellor's proposals, strongly extended their gains as he spoke. At the close, the FT-SE 100 index was a shade off the top, with a net rise of 14.5 bringing a new peak of 2006.3. At 1586.9, the FT ordinary was 10.3 up but still well below its recent peak.

The absence of significant changes in excise duties, together with the expected 2p cut in standard rate income tax, brought gains in brewery and other consumer industry shares, and in the market leaders. However, most marketmakers widened their quotations, avoiding taking on heavy positions until today, when the market analysts will produce their recommendations.

The strongest response came in gilts, which jumped by around 1½ points during the speech to end with net gains of 2 points as sterling moved higher. The 9 per cent yield on long-dated gilts was challenged again, and the market is looking for an early cut in bank base rates of a full point—perhaps today.

For the gilt-edged market, the Chancellor's winning card was his forecast that Borrowing Requirement will be only £4bn this year. With about £2bn already in the market in the form of the recent partly-paid tap stocks, pressure for new Government borrowing will be minimal.

Also, the Chancellor pleased the gilts sector by restraining personal tax cuts to 2p per £1, and avoiding other inflationary moves, including raising mortgage relief levels.

Oil shares turned ahead sharply on the tax help given on exploration. British Petroleum doubled an earlier gain and Britoil and Shell recorded substantial gains.

Insurance issues responded in late trading to the Government's plans to encourage private pension schemes.

Among the international stocks, Glaxo was strong throughout the session, as the group applied for the expected listing in Tokyo. Japanese buyers have been a significant factor behind the huge gain in Glaxo shares since the autumn.

Fisons was also in demand, but Imperial Chemical Industries (ICI) took a heavy knock from the onsurge in the pound. Although above the worst at the close, ICI remained one of the disappointments of the trading session.

The major clearing banks appeared aloof from the Budget proposals and showed little alteration overall. NatWest edged up 5 to 598p and Midland hardened a few pence to 628p, but Barclays, 519p, and Lloyds 493p, were virtually unchanged. Elsewhere, Standard Chartered rose 20 to 760p, while Chancery Securities gained 13 to 221p reflecting continued speculative buying. Among Discounts, Union, strong of late on the IEP Securities stake in the company, eased 20 to 878p following profit-taking.

Both Life and Composite Insurances extended initial modest gains by a penny or so more following the Budget.

Admiral Computing staged a successful market debut, the shares opening at 160p and advancing to 180p compared with the placing price of 150p. Among other recently-issues equities, Capital Radio attracted good support and touched 192p prior to closing 16 higher at 183p. British Airways closed a penny dearer at 124p, after 125p.

The absence of the expected increases in excise duty found Distillers and Brewery shares responsive but most leading stocks eventually came away from the highest points. Guinness rose to 328p before settling only 3 up at 320p while Bass gained 6 to 948p and Allied-Lyons jumped 9 to 399p. Buoyed also by recently-announced higher profits, Invergordon Distillers advanced 6 more to 180p. Grand Metropolitan suffered initially from a profits downgrading by James Capel and fell to 480p before rallying well to end 4 higher on the session at 489p.

Leading Buildings attracted selection buying interest prior to and after the Chancellor's Budget proposals. Housebuilders, anticipating a further cut in interest rates, went better with Barratt Developments touching 205p prior to closing unchanged at 198p. The company's interim results are expected tomorrow. George Wimpey firmed 2 to 239p and Tarmac rose 14 to 528p. McCarthy and Stone continued to reflect press comment with a fresh rise of 9 to 431p, while Anglia Secured Homes put on 20 to 381p. Federated Housing gained 4 to 193p. Elsewhere, Blue Circle moved up 15 to 758p and BPB Industries hardened 3 to 689p. Magnet and Southerns were again th pick of Timber issues and closed 14 higher at 332p. Johnstones Paints, still reflecting favourable comment, moved up 8 to 150p, but light profit-taking clipped 8 from Helical Bar at 375p.

ICI closed ⅛ lower at £13⅛. Elsewhere in the Chemical sector, Foseco gained 8 to 268p on reports of speculative demand, while Coates Brothers A firmed 10 to 203p ahead of the annual results due on April 2. British Benzol shed a penny to 89p, after 92p.

The prospect of increased consumer spending via the Chancellor's taxation cuts and the expected reductions in mortgage rates underpinned the Store sector. Leading issues often closed below the best but Burton still ended 5 up at 311p. Woolworth advanced 13 to 828p, Dixons 6 to 381p and Harris Queensway 4 to 217p. Sears were actively traded and rebounded 3 to 138p while Superdrug jumped 14 to 509p. Agreed merger terms left Garnar Booth 21 higher at 243p and Pittard 7 firmer at 303p.

Once again, interest in the Electrical sector centred chiefly on the secndary issues. Process Systems, down 16 in the previous trading session on the interim loss, rallied 10 to 32p. Newspaper comment on the preliminary figures prompted a gain of 11 to 281p in Cambridge Electronics, while Amstrad encountered further buying and put on 4 to 187p. Wholesale Fittings featured a gain of 20 at 352p. Other outstanding movements included Eurotherm, 16 higher at 394p, Alphameric, 17 to the good at 346p, and Oxford Instruments, 13 dearer at 414p. Leading issues were inclined firmer, but Cable and Wireless continued to drift lower and closed 7 lower at 353p.

The Engineering leaders followed the firmer trend, while secondary issues featured a gain of 32 to 585p in Carlco following a buy recommendation from Robert Fleming Securities. Glynwed, currently on Kleinwort Grievson Securities undervalued list of stocks, also made headway at 402p, up 10. Delta, overlooked of late, advanced 13 to 250p, while bid hopes continued to sustain Crown House, 12 to the good at 249p, and Ransomes Sims, 8½ higher at 280p. W. A. Tyzack, still reflecting the change in stakeholders, rose 12 more to 105p. Birmid Qualcast, in contrast, fell 16 to 226p as Hepworth Ceramic sold its 4.9 per cent stake in the company at around 226p per share; Hepworth improved 6 to 200p. TI Group gained 9 to 651p on vague suggestion that Hepworth Ceramic may now buy the former's white goods division.

Leading Foods fluctuated narrowly for the most part although Hillsdown Holdings attracted solid support and rose 8 to 277p. United Biscuits added 4 to 277p awaiting today's annual results, but Cadbury Schweppes softened a couple of pence more to 240p. Among Retailers, early demand boosted ASDA-MFI 4 to 156p and Dee Corporation 4 to 234p. Elsewhere, Jack Israel firmed 2 to 33½p reflecting reports of traditional option activity.

Pharmaceutical shares staged a good revival. Beecham led the sector higher with a rise of 10 at 557p, while Fisons were also noteworthy for a gain of 23½ at 639p. Boots rallied 5 to 291p, while Glaxe, awaiting the outcome of this week's presentation in Japan, edged up ¼ more to £15¼. Elsewhere in the miscellaneous industrial sector, Erskine House, still reflecting the US expansion moves, put on 8 further to 221p, while favourable comment on the preliminary figures left Suter a similar amount dearer at 285p. Suggestions of managerial changes prompted renewed firmness in Bowater, up 12 more at 445p, but profit-taking clipped 8 from Parker Knoll at 577p. Hawtal Whiting drifted off 5 further to 360p on the annual results. Great Southern Group responded to acquisition news with a rise of 10 to 225p. Smith and Nephew, scheduled to report annual results next Wednesday, gained 5½ to 163½, while Turner and Newall, due to report preliminary figures today, edged up 3 to 241p. Hunter advanced 42 to 72p in a limited market, while other outstanding movements included Diplema, 21 higher at 280p, and Wm Baird, 11 to the good at 534p. Cookson met with investment demand and put on 12 to 574p, but Norcros, a rising market of late on Williams Holdings bid hopes, ran into profit-taking and gave up 4 to 379p. Further consideration of the proposed £5m rights issue prompted a rally of 3 to 188p in Nash Industries.

Television issues made another bright showing. Television Southwest put on 4 to 82p awaiting today's half-timer, while Scottish rose 13½ to 491½p and HTV gained 10 more to 318p.

First Leisure firmed 7 to 320p following the chairman's confident statement at the annual meeting, while Stanley moved ahead strongly to close 20 higher at 285p.

A Chase Manhattan "buy" recommendation together with the chairman's confident remarks about current trading aroused interest in Lex Service, which rose 9 more to 376p. Other Motor Distributors on investors' buying lists included Cafyns, 10 higher at 313p, and Laidlaw, a further 4½ dearer at 125p. Western Motor issues surged ahead strongly on the offers from ex-Ford executive Mr R. Palmer and New Zealander Mr B. McNeil together with Samuel Montagu and other institutional investors. Following the purchase of 53.6 per cent of the Ordinary share capital and 37.5 per cent of the "A" class, the same terms of 270p for each Ordinary and 230p per "A" share have been made available to all shareholders; the Ordinary closed 67 higher at 275p and the "A" 60 up at 235p.

Bristol Evening Post benefited from revived support and gained 7 to 197p while Octopus Publishing improved 10 further to 699p. The two principal movements in Paper/Printing concerned DRG, up 7 at 424p awaiting today's annual results, and Bunzyl which rose 5 to 240p amid revived talk of the group stalking DRG. Michael Peters were raised 18 to 148p in response to the chairman slightly increasing his shareholding in the company. Despite encouraging comment and news of US expansion, WPP slipped 18 more to 955p.

The Property leaders gleaned little encouragement from the Budget proposals and prices came back quite sharply in late dealings. MEPC, after early progress to 367p, eased back to close 4 lower on balance at 359p. Land Securities closed 8 down at 379p, after 390p. Brixton Estate held up well and closed 4 higher at 193p. Elsewhere, Grainger Trust rose 30 to 318p in a restricted market, but Laing Properties dipped 13 to 376p reflecting disappointment with the asset valuation which accompanied the annual results. Profit-taking left New England Properties 3 lower at 62p and Marler Estates 23 off at 950p; the latter's interim results are due tomorrow. Dencora attracted support and rose 17 to 165p.

Light demand found stock of Courtaulds none too freely available and the price moved up smartly to 400p for a gain of 9. Leeds were another good performer at 276p, up 12, while Parkland "A" revived with a rise of 5 to 144p. Lister recorded one of the sector's adverse movements, losing 4 to 173p.

Reflecting the strength of underlying securities, Investment Trusts moved higher across the board to record double-figure gains. Authority Investments went higher still among Financials, closing 15 dearer at 440p, while Johnson Fry spurted 17 to 198p. Mirroring the sharp first-half improvement, MAI put on 7 at 526p.

The Chancellor's proposals for increased tax relief on exploration, coming in the wake of crude prices touching $18 a barrel, gave a strong boost to the oil sector, but prices closed below the best as demand petered out. British Petroleum closed 10 higher at 822p, while Shell settled ¼ higher at £12¼. Britoil were boosted by a broker's favourable comment and gained 15 to 222p, after 230p, while Enterprise were up 8¼ at 252¼p. LASMO rose 18 to 234p. Buyers again favoured Carless Capel, up 8 more at 103½p, while Triton revived with a gain of 7 at 145p. IC Gas moved up 10 to 723p, while Sovereign gained 9 to 84p. British Gas firmed 3½ to 84p.

Mid-term profits affected by currency inflences but in line with expectations drew buyers to Paterson Zochonis, which ended 13 up at 358p. Harrisons and Crosfield firmed 4 further to 500p but Polly Peck eased to 246p. Titaghur Jute were marked 35 higher to 135p in a restricted market.

Gold shares were largely overshadowed in London by the response from UK industrial and consumer stocks to the Budget Speech from the British Chancellor of the Exchequer. Modest trading saw producer prices moving upwards in the earlier part of the session. The FT Gold Mines index added 3.1 to 341.4.

Traded options

Total overall contracts in Traded options was down on the previous day with 40,027 deals done. Calls accounted for 31,490p and puts were 8,537. The FTSE contract registered 1,408 calls and 1,277 puts. British Gas were active and recorded 6,586 calls and only 244 puts. British Airways totalled 3,329 calls and 1,039 puts.

Traditional Options

- First dealings March 16
- Last dealings March 27
- Last declaration June 25
- For Settlement July 6

For rate indications see end of Unit Trust Service

Money was given for the call of Kwik Save, Parkdale, Hampton Trust, Tyne Tees TV, Cosalt, Property Trust, Grampian TV, Goodman Bros, Crown House, Blacks Leisure, Amstrad, Pericom, Godfrey Davis, Suter, 600 Group, Delsari, Avesco, Capital Radio, J. Israel, London Securities, Federated Housing, North Kalgurli, Cattle Holdings, Laing Properties, Talbex, Ellis and Goldstein, Process Systems, William Boulton, S. R. Gent, Cifer, Abaco and Datron. No puts or double options were reported.

FINANCIAL TIMES STOCK INDICES

	Mar. 17	Mar. 16	Mar. 13	Mar. 12	Mar. 11	Year ago	1986/87 High	1986/87 Low	Since Compilation High	Since Compilation Low
Government Secs	90.89	90.07	89.87	89.89	90.12	88.92	94.51 (18/4/86)	80.39 (20/1/86)	127.4 (9/1/35)	49.18 (3/1/75)
Fixed Interest	96.42	96.11	95.29	95.55	95.51	93.06	97.68 (7/7/86)	86.55 (23/1/86)	105.4 (28/11/47)	50.53 (3/1/75)
Ordinary ♥	1,586.9	1,576.6	1,583.9	1,578.0	1,571.4	1,374.6	1,613.5 (3/3/87)	1,094.3 (14/1/86)	1,613.5 (3/3/87)	49.4 (26/6/40)
Gold Mines	341.4	338.3	340.1	331.3	324.1	317.4	346.7 (5/3/87)	185.7 (18/7/86)	734.7 (15/2/83)	43.5 (26/10/71)
Ord. Div. Yield	3.68	3.70	3.69	3.71	3.72	3.95				
Earnings Yld.%(full)	8.53	8.59	8.56	8.60	8.64	9.40				
P/E Ratio (net) (*)	14.37	14.28	14.32	14.25	14.19	13.20				
SEAQ Bargains (5 pm)	39,866	49,571	48,407	46,032	49,829	—				
Equity Turnover (£m)	—	977.60	1,342.341	1,438.921	1,452.21	753.85				
Equity Bargains	—	56,290	57,276	56,838	56,688	37,201				
Shares Traded (ml)	—	424.9	—	602.3	600.1	337.6				

S.E. ACTIVITY

Indices	Mar. 16	Mar. 13
Gilt Edged Bargains	166.5	192.6
Equity Bargains	364.7	371.1
Equity Value	1976.0	2713.2
5-Day Average		
Gilt Edged Bargains	186.8	189.9
Equity Bargains	370.7	380.8
Equity Value	2645.8	2880.2

♥ Opening	10 a.m.	11 a.m.	Noon	1 p.m.	2 p.m.	3 p.m.	4 p.m.
1575.9	1579.1	1583.5	1585.7	1587.2	1588.9	1590.1	1592.1

Day's High 1600.3. Day's Low 1575.9

Basis 100 Govt. Secs 15/10/26, Fixed Int. 1928, Ordinary 1/7/35, Gold Mines 12/9/55, SE Activity 1974, *Nil=13.83.

LONDON REPORT AND LATEST SHARE INDEX: TEL. 01-246 8026

NEW HIGHS AND LOWS FOR 1986-87

NEW HIGHS (229)

BRITISH FUNDS (16), CORPORATION LOANS (1), CANADIANS (1), BANKS (3), BREWERS (5), BUILDINGS (17), CHEMICALS (5), STORES (4), ELECTRICALS (10), ENGINEERING (11), FOODS (6), HOTELS (3), INDUSTRIALS (28), INSURANCE (1), LEISURE (6), MOTORS (2), NEWSPAPERS (2), PAPER (7), PROPERTY (15), SHIPPING (3), SHOES (3), SOUTH AFRICANS (1), TEXTILES (2), TRUSTS (53), OILS (10), OVERSEAS TRADERS (3), PLANTATIONS (1), MINES (8).

NEW LOWS (10)

AMERICANS (7) Chase Manhattan, Chemical New York, Citicorp, Colt Inds, Contl Illinois Corp, Manuf Hanover, Transamerica, BANKS (1) Deutsche Bank, INSURANCE (1) Allianz AG, OVERSEAS TRADERS (1) GN Great Nordic.

TRADING VOLUME IN MAJOR STOCKS

The following is based on trading volume for Alpha securities dealt through the SEAQ system yesterday until 6 pm.

Stock	Volume 000's	Closing price	Day's change	Stock	Volume 000's	Closing price	Day's change
ASDA-MFI	10,000	156	+4	Ladbroke	536	439	+4
Allied Lyons	2,300	399	+9	Land Securities	4,800	379	−8
Amstrad	4,100	187	+4	Legal & Gen.	902	307	+3
Assoc. Brit. Foods	445	346	—	Lloyds Bank	305	492	−1
BAT	13,000	522	+3	Lonrho	225	273½	—
BET	796	512½	−3½	MEPC	2,100	359	−4
BOC	1,100	435	+1	Marks & Spncr	3,800	230½	+1½
BPB Inds	453	689	+3	Midland Bank	431	628	+3
BPCC	564	350	—	NatWest Bank	1,000	598	+5
BTR	2,200	339	—	Pearson	494	571	−3
Barclays	989	519	−4	P & O	1,500	622	−4
Bass	1,000	948	+6	Pilkington Bros	1,300	745	−5
Beecham	3,100	557	+10	Plessey	259	241	−7
Blue Circle	409	758	+15	Prudential	476	893	+10
Boots	3,700	291	+5	Racal	1,800	244½	+1½
Brit. Airways	6,100	124	+1	Rank Org	782	698	−1½
Brit. Aero	686	644	+5	RHM	250	317	+3
Brit. Gas	46,900	84	+3½	Reckitt & Col	149	985	−1
Britoil	13,000	222	+15	Redland	287	471½	+1½
BP	3,100	822	+10	Reed Intl	235	494	—
Brit. Telecom	9,600	249	+4	Reuters	484	713	−4
Bunzl	360	240	+5	RMC	170	820	+3
Burton	2,400	311	+5	RTZ	691	729	−3
Cable & Wire	6,200	353	−7	Rowntree Mac	1,000	487	+1
Cadbury Schwps	921	240	−1½	Ryl Bnk of Scotland	437	333	+3
Coats Viyella	447	[illegible]	+1	Royal Insurance	320	989	−2
Comm. Union	985	322	—	STC	2,000	250	+2
Cons. Gold	120	[illegible]	+2	Saatchi & Saatchi	221	661	−3
Cookson	193	574	+12	Sainsbury	174	485	+3
Courtaulds	974	400	+9	Scott & Newcastle	1,000	245	+2
Dee Corpn	3,000	234	+4	Sears	7,500	138	+3
Dixons Grp	4,050	381	+6	Sedgwick	395	326	+5
English China Clays	226	418½	−½	Shell Trans	2,200	1224	+¼
Fisons	1,400	639	+23½	Smith & Nephew	4,600	163½	+5½
Gen. Accident	86	935	+3	Standard Chart	852	760	+20
Gen. Elect	2,000	211	+1	Storehouse	3,300	309	—
Glaxo	1,400	£15¼	+¼	Sun Alliance	116	788	+1
Globe Investment	1,100	152½	+2	TSB	3,500	78½	+1
Granada	383	329	+4	Tarmac	1,300	528	+14
Grand Met	3,000	489	+4	Tesco	1,700	485	—
Gus "A"	74	£13½	−⅛	Thorn EMI	718	609	−1
Guardian R.E.	215	923	—	Trafalgar House	517	335	+4
GKN	1,500	350	+3	T'house Forte	386	218	+1
Guinness	5,200	320	+3	Unigate	677	364	+2
Hammerson Prop	135	490	+2	Unilever	173	£25⅜	+⅜
Hanson Trust	3,500	171	+½	United Biscuits	2,300	277	+4
Hawker Sidd	100	517	−5	Wellcome	1,550	497	+2
Hillsdown Hlgs	1,700	277	+8	Whitbread 'A'	2,000	339½	+7½
ICI	1,100	£13⅛	−⅛	Willis Faber	131	434	+4
Imp. Cont. Gas	754	723	+10	Woolworth	823	828	+13
Jaguar	447	570	+1				

RISES AND FALLS YESTERDAY

	Rises	Falls	Same
British Funds	103	4	5
Corporations, Dominion and Foreign Bonds	2	0	67
Industrials	533	370	635
Financial and Properties	221	100	266
Oils	45	17	50
Plantations	1	4	9
Mines	63	51	66
Others	25	115	58
Totals	993	661	1,157

FT-ACTUARIES INDICES

These Indices are the joint compilation of the Financial Times, the Institute of Actuaries and the Faculty of Actuaries

EQUITY GROUPS & SUB-SECTIONS

Figures in parentheses show number of stocks per section

Tuesday March 17 1987

[illegible]

FIXED INTEREST

[illegible]

LONDON TRADED OPTIONS

[illegible]

March 17. Total Contracts 40,027. Calls 31,490. Puts 8,537

FT-SE Index Calls 1,408 Puts 1,277

LONDON RECENT ISSUES

EQUITIES

[illegible]

FIXED INTEREST STOCKS

[illegible]

"RIGHTS" OFFERS

[illegible]

هكذا من الأصل

WORLD STOCK MARKETS

AUSTRIA

[illegible]

BELGIUM/LUXEMBOURG

[illegible]

DENMARK

[illegible]

FINLAND

[illegible]

NETHERLANDS

[illegible]

GERMANY

[illegible]

ITALY

[illegible]

FRANCE

[illegible]

NORWAY

[illegible]

SPAIN

[illegible]

SWEDEN

[illegible]

SWITZERLAND

[illegible]

AUSTRALIA

[illegible]

AUSTRALIA (continued)

[illegible]

HONG KONG

[illegible]

JAPAN

[illegible]

JAPAN (continued)

[illegible]

SINGAPORE

[illegible]

SOUTH AFRICA

[illegible]

NOTES—Prices on this page are as quoted on the individual exchanges and are last traded prices. § Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all. * Price in Kroner.

CANADA

TORONTO

Closing prices March 17

[illegible]

F—No voting rights or restricted voting rights.

MONTREAL

Closing prices March 17

[illegible]

Total Sales 6,888,753 shares

Indices

NEW YORK—DOW JONES

[illegible]

STANDARD AND POORS

[illegible]

N.Y.S.E. ALL COMMON

[illegible]

RISES AND FALLS

[illegible]

TORONTO

[illegible]

[illegible]

** Saturday March 14: Japan Nikkei (c). TSE (c). Base value of all indices are 100 except Brussels SE—1,000, JSE Gold—255.7, JSE Industrials—264.3, and Australia, All Ordinary and Metals—500; NYSE All Common—50; Standard and Poors—10; and Toronto Composite and Metals—1,000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds. ‡ 400 Industrials plus 40 Utilities, 40 Financials and 20 Transports. c Closed. u Unavailable.

NYSE-Consolidated 1500 Actives

[illegible]

TOKYO – Most Active Stocks

Tuesday, March 17, 1987

	Stocks Traded	Closing Price	Change on Day		Stocks Traded	Closing Price	Change on Day
Nippon Steel	419.11m	322	+ 17	Nippon Kokan	63.48m	200	+ 23
Kawasaki Steel	218.54m	255	+ 10	Kobe Steel	50.72m	330	+ 17
Sumitomo Metal Ind.	117.20m	265	+ 12	Nisshin Steel	59.31m	268	+ 42
Ishikawajima Heavy Ind.	78.68m	530	+ 12	Sumitomo Chemical	40.84m	958	+ 8
Sumitomo Heavy Ind	63.94m	377	+ 37	Mitsubishi Heavy Ind.	37.57m	528	+ 19

LONDON – Most Active Stocks

Monday, March 17, 1987

	Stocks Traded	Closing Price	Change on Day		Stocks Traded	Closing Price	Change on Day
Brit Gas	45.58m	84	+ 3½	Cable & Wire	6.79m	353	– 7
Britoil	13.89m	222	+15	Brit Airways	6.18m	124	+ 1
ASDA-MFI	10.99m	156	+ 4	TSB	5.50m	79½	+ 1
Brit Telecom	9.66m	249	+ 4	Guinness	5.28m	320	+ 3
Sears	7.58m	138	+ 3	Land Secs.	4.88m	379	– 8

LONDON Chief price changes

(in pence unless otherwise indicated)

RISES:

Tr. 13½pc '04-08	£138 ⁵⁄₃₂	+ 2⅛
Ex. 12pc '13-17	£130²³⁄₃₂	+ 2⅝
Allied-Ly	399	+ 9
Beecham	557	+10
Bl Circ	758	+15
Bowater Inds.	445	+12
Bris Eve Post	197	+ 7
Brit. Gas	84	+ 3½
BP	822	+10
Carclo	585	+32
Carless Cap	103½	+ 8
Crown Hse	242	+12
Delta	249	+12
Fisons	639	+23½
Garn Booth	243	+21
Hillsd Hldgs.	277	+ 8
Johns Fry	198	+17
LASMO	234	+10
Leeds Grp.	276	+12
Lex Serv	376	+ 9
Mag & Souths	332	+14
Oxford Instrus	414	+13
Paterson Zoch	358	+13
Pet. (Michael)	148	+18
Superdrug Strs.	509	+14
Tarmac	528	+14
Titaghur Jute	135	+35
Western Mot	275	+67
Wholesale Fitgs	352	+20

FALLS:

Laing Props.	376	–13
Land Secs	379	– 8

OVER-THE-COUNTER *Nasdaq national market, closing prices*

Continued from Page 49

[illegible]

Gillette wins approval to buy Waterman stake

By David Housego in Paris

GILLETTE, the US razor and consumer goods group, has received French Government approval to go ahead with its purchase of a majority stake in Waterman, the family owned French quality pen manufacturer.

Gillette gained an option to purchase 180,000 Waterman shares at FFr 700($114) each in November in a move that will give it 51.2 per cent of the French group. Mrs Francine Gomez, president of the company, her mother and her aunt own 53 per cent of the shares.

The sale is intended both to avoid death duty problems and to thwart a potential bid to take over the company by Parker Pen, the US-based pen manufacturer.

Crédit Commercial de France, the French bank, has undertaken to ensure that Waterman's share price – which stood at FFr 625 on Monday – does not fall below FFr 650 between March 18 and April 7.

French government permission is necessary on foreign investments which originate outside the EEC.

NORTH AMERICAN QUARTERLIES

NOVA, AN ALBERTA CORP
Energy

[illegible]

PULITZER PUBLISHING
Publishing

[illegible]

THE GAP
Clothes retailer

Fourth quarter	1986 C$	1985 C$
Revenue	293.5m	239.8m
Net profits	[illegible]	19.9m
Net per share	[illegible]	0.58
Year		
Revenue	[illegible]	647.3m
Net profits	[illegible]	34.4m
Net per share	[illegible]	1.01

UNITED BRANDS
Fruits, meat packer

Fourth quarter	1986-87 $	1985-86 $
Revenue	[illegible]	744.7m
Net profits	[illegible]	†1.1m
Net per share	[illegible]	†0.11
Year		
Revenue	[illegible]	3.08bn
Net profits	[illegible]	24.4m
Net per share	[illegible]	2.18

†Loss

SMH to pay first dividend

By Jeffrey Brown in London

SMH, the Swiss watch group formed in 1983 by the merger of two troubled horological companies, plans to pay its first dividend.

The group is also to raise SFr 100m through a bond issue on the local capital market. The issue carries warrants to take up SMH participation certificates.

SMH says profits for 1986 are likely to increase by around 15 per cent and that as a result it will pay a dividend of 5 per cent. Net profit in 1985 totalled SFr 60.4m.

The company said worldwide sales last year were 1.2 per cent higher at SFr 1.8bn ($1.1bn). It pointed out that sales growth would have been closer to 6 per cent but for currency swings.

SMH's bond offering is to be lead-managed by Union Bank of Switzerland.

NEW YORK STOCK EXCHANGE COMPOSITE CLOSING PRICES

12 Month High	12 Month Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
33	20 1/8	AAR s	.50	1.6	23	343	32	31 1/8	31 7/8	+7/8
37	21 7/8	ADT	.92	2.5	21	539	36 5/8	36 1/8	36 5/8	+1/8
41 1/2	25 5/8	AFG	.12e	.3	12	x435	41 1/4	40 5/8	41 1/4	+3/8
40 1/4	16 3/4	AGS			21	164	36 3/4	36 5/8	36 5/8	-3/8
9 3/8	4 7/8	AM Intl				1669	8 5/8	8 1/2	8 5/8	-1/8
62 1/8	47 1/4	AMR			12	6812	56 1/4	55	56 1/4	
12 7/8	8	ARX s			13	137	10 7/8	10 1/2	10 7/8	+3/8
49 1/2	28 3/4	ASA	2a	4.2		753	48 3/8	46 5/8	47 5/8	-1/4
17 3/8	9 3/4	AVX		2.0		138	15 7/8	15 3/8	15 7/8	+3/8
32 3/4	26 1/2	AZP	2.72	8.6	10	656	31 7/8	31 1/2	31 7/8	+1/8
63 3/8	38 1/8	AbtLb s	1	1.6	26	3613	61 1/4	59 3/4	61 1/4	+1 1/8
34	25	AccoWd .62		2.0	20	70	31	30 3/4	31	+1/4
14 1/8	9	AcmeC .40		3.0	24	73	13 3/8	12 3/4	13 1/8	
9	6 7/8	AcmeE .32b		4.0	28	4	8	8	8	
23 7/8	18 5/8	AdaEx 3.42e		18.		58	22	21 3/4	21 7/8	
19 1/2	11 3/8	AdmM s .24		1.3	14	11	18 3/8	18 1/4	18 3/8	
21 1/2	12 1/8	AdvSys .62t		3.0	16	150	21 1/8	21	21	-1/8
31 7/8	12 7/8	AMD				5616	21 7/8	20 7/8	21 1/2	+1/2
10 5/8	5 1/4	Adobe				2318	9 1/4	9	9 1/4	+1/4
20	13 3/4	Adob pf 1.84		9.3		48	19 3/4	19 1/4	19 3/4	+1/4
21 7/8	16 5/8	Adob pf 2.40		11.		23	21 1/8	21	21 1/8	
18 5/8	11 1/2	Advest .12a		.9	10	76	13	12 3/4	12 7/8	
68 1/4	53	AetnLI 2.76		4.1	11	5139	67 1/8	66 1/2	67	+1/2
54	51 1/8	AetL pf2.81e		5.4		1	51 3/4	51 3/4	51 3/4	
50 3/4	21 7/8	AffPb s .32		.7	26	359	48 3/4	48 3/8	48 5/8	-1/8
28 3/4	18 7/8	Ahmans .88		3.3	8	3577	26 5/8	26 1/8	26 1/2	+1/4
5 3/4	2 7/8	Aileen				101	4 1/8	3 7/8	4	
48 1/2	28 1/8	AirPrd s .80		1.8	[illegible]	2238	44	43 1/4	43 7/8	+1/4
35 1/4	16	AirbFrt .60		1.8	15	172	32 7/8	32 3/8	32 7/8	+1/4
11 5/8	7 5/8	Airgas n				93	10	9 7/8	9 7/8	-1/8
20 3/8	17 1/8	Airlse n.49e		2.6		49	19 1/4	18 7/8	19	-1/4
17-32	1/4	AlMoan				25	15-32	7-16	7-16	
10 3/4	8 7/8	AlaP dpf.87		8.3		156	10 1/2	10 3/8	10 1/2	+1/8
110	102	AlaP pf 11		10.		z10	108	108	108	
96 1/2	83 1/2	AlaP pf 8.28		8.7		z30	95 1/4	95 1/4	95 1/4	
27 7/8	14 1/4	AlskAir .16		.7	17	1224	24 3/8	24	24	-3/8

[illegible]

Continued on Page 49

NYSE COMPOSITE CLOSING PRICES

Continued from Page 48

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quot.	Ch'ge Prev. Close
58¼	55	Xerox pf5.45		9.7		132	56	55⅝	56	+⅛
25⅝	21½	XTRA .64		2.5		43	25⅞	25⅝	25¾	−⅜
20¾	13½	Yorkin n			28	154	20	20	20	
6	2¼	Zapata				653	3⅝	3½	3⅝	
49⅞	20¾	Zayre s .32		1.1	19	4927	30⅞	29⅝	30⅞	+⅜
14¾	9¾	Zemex .40		3.0	9	78	13⅞	13	13⅝	−⅝
29⅞	18⅞	ZenithE				324	24⅞	24½	24¾	+⅛
18¼	8	ZenLb s			73	2184	12¼	11⅝	11⅝	−⅛
22	12⅝	Zero .36		1.9	20	102	19¼	19	19	−⅜
51	33¼	Zurnin 1.32		2.6	20	71	50¼	50	50	−⅛
10⅝	8¾	Zweig n.10e		1.0		668	9¾	9½	9⅝	

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 per cent or more has been paid, the year's high-low range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividends are annual disbursements based on the latest declaration.

a-dividend also extra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E-price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls – sales. t-dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-dividend or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

AMEX COMPOSITE CLOSING PRICES

OVER-THE-COUNTER *Nasdaq national market, closing prices*

Continued on Page 47

FINANCIAL TIMES

WORLD STOCK MARKETS

AMERICA

Oils, high-techs underpin fresh record

WALL STREET

HEAVY BUYING of oil and technology stocks helped push Wall Street share prices to record levels yesterday as many investors, setting aside their caution about Friday's Triple Witching Hour, were tempted back into the markets, *writes Roderick Oram in New York.*

The more positive mood spilled over a little into credit markets as bond prices recovered quickly from a small dip triggered by news of far stronger than expected housing starts.

The Dow Jones industrial average rose steadily through the day to close up 36.36 points at a record 2,284.80, beating the previous record of 2,280.23 set on March 6.

The slow morning reflected reluctance of many investors to enter the markets on the eve of turbulent trading surrounding the simultaneous expiration on Friday of futures and options on stock indices and options on individual shares. Some of the caution gave way to buying, however, during the afternoon.

Broad market indices followed the Dow Industrials higher. The Standard and Poor's 500 and the New York and American stock exchange composite indices set records, adding 4.24 to 292.47, 2.07 to 166.41 and 4.06 to 335.24 respectively.

NYSE volume picked up to 177.3m shares from the lethargic level of 134.9m on Monday with advancing issues out-pacing declining by a two-to-one margin.

Oil stocks were strong on rising oil prices, signs that Opec was achieving some discipline over members' output and the release of a Reagan Administration report proposing ways to boost domestic oil production. Exxon added $2¼ to $84¾, Chevron rose $1⅛ to $55½, Amoco gained $2 to $79½, Texaco put on $⅞ to $35 and Atlantic Richfield advanced $3⅛ to $78¾. Ashland Oil fell $2¼ to $64 on expectations it would report a second quarter loss.

Schlumberger rose $2 to $39⅞ reflecting a favourable impact of rising oil prices on its oilfield service business and the end of its pact to sell on 80 per cent stake in its Fairchild Semiconductor unit to Fujitsu, the Japanese electronics and computer group. The plans were dropped under pressure from the US Government.

Other semiconductor stocks were buoyed by the action to curb Fujitsu's incursion into the US market. Motorola added $1⅞ to $52¼, National Semiconductor advanced $1 to $15⅞, Intel gained $2⅝ to $38 and Advanced Micro Devices put on $⅝ to $21½.

Computer stocks picked up some of their recent losses with IBM gaining $2⅝ to $147, Digital Equipment advancing $5½ to $166¾, Unisys rising $4 to $103¼ and Cray Research gaining $3 to $124.

Taft Broadcasting advanced $3¼ to $156. An investment group raised its management buy out offer to $150 a share from $145.

Turner Broadcasting fell $⅛ to $21⅞ on the American Stock Exchange. Time Inc., unchanged at $88¾, said it was negotiating to join the investor group which was planning to pay $550m for a 35 per cent stake in the cable television company.

Ameri Trust jumped $4⅞ to $51 in the over-the-counter market. The Ohio bank group said investors led by Mr Alfred Lerner, chairman of Equitable Bancorp, up $¼ to $30, had taken a 9.6 per cent stake in it.

K mart fell $¼ to $61½. It said it ended talks to sell its Kresge chain of stores to Woolworth, which declined $⅞ to $46½.

News that the floatation price of Consolidated Rail was being raised to between $26 and $29 a share from $22 to $26 helped buoy up other railroad stocks. Union Pacific jumped $2⅞ to $76¾, CSX added $⅝ to $34, Burlington Northern gained $2¼ to $69¼, Norfolk Southern advanced *$⅜ tro $97 and Santa Fe* South Pacific was ahead $⅜ to $34¾.

Credit markets reacted with only a brief dip in prices to the news of a 2.6 per cent rise in housing starts in February. A fall by a similar margin had been expected.

The price of the 7.50 per cent benchmark Treasury long bond recovered from its early session decline to show a gain for the day of ¹⁄₃₂ of a point to 100⅝ at which it yielded 7.49 per cent.

The continuing strength of housing starts, particularly of single family homes, appears to be under pinned by low interest rates, ready availability of mortgages and favourable treatment of houses under tax reforms. Should the trend continue, the domestic construction sector could prove to be a significant factor in US economic growth this year.

CANADA

AFTER A SLOW start, share prices climbed strongly into record territory on firmer oil prices.

Energy and metal and mining stocks led the market's advance, with Imperial Oil 'A' adding C$2.00 to C$66.00, Shell Canada C$1¼ to C$40⅛ and Gulf Canada C$⅜ to C$27⅛.

In metals and mines, Inco was up C$⅛ to C$20½ and Falconbridge put on C$⅛ to C$20½.

Against the trend, precious metals eased, with Lac Minerals down C$⅜ to C$38⅜ and Dome Mines off C$⅛ at C$15⅛.

Among leading actives, Numac Oil and Gas was steady at C$11.00 after arranging a C$59.7m financing.

Montreal rose with Toronto, with only banks showing an easier trend.

London surges to record after budget

BY JANET BUSH AND TERRY BYLAND IN LONDON

UK FINANCIAL markets rose strongly in a swift and extremely positive reaction to yesterday's budget which was seen as paving the way for an immediate cut in base lending rates.

Interest rates on the domestic money market shifted sharply lower as Mr Nigel Lawson, Chancellor, was speaking in response to the decision to slash his projection for public borrowing by £3bn to only £4bn ($6.4bn). Rates now discount a full percentage point cut in base rates. Some reduction in rates is widely expected today.

The cut in borrowing provided markets with the biggest surprise of the budget. The Chancellor, had been widely expected to concentrate the funds he had available on cutting taxes in what is likely to be an election year. In the event, the focus on cutting public borrowing was seen as admirably prudent and confidence-building.

At the same time, the Chancellor delivered a 2 percentage point cut in the basic rate of income tax which had been widely anticipated and provided further sweeteners for public consumption in his decision not to raise excise duties on cigarettes and alcohol.

His forecasts for the economy and his budget arithmetic were seen as credible, which could prove crucial for market confidence.

Economists and traders said the budget had left the Government's options on election timing wide open and enhanced its chances of winning. The tax cuts would be felt in people's pockets in time for a June poll but the Chancellor's prudence should also ensure a relatively trouble-free period if the Government wanted to wait until the autumn or even next year to call the election. Belief in a Conservative victory has been a crucial factor supporting UK markets in recent months.

Sterling closed sharply higher. Its trade weighted index closed yesterday sharply up at 72.1 compared with Monday's closing 71.4. The pound closed at $1.5990 compared with the previous close at $1.5840 and also rose sharply against European currencies.

The most dramatic reaction to the budget was seen in the UK Government bond market where prices surged by 2 points at the longer-dated end of the market.

Primary dealers marked prices up sharply as soon as the Chancellor had sat down and they saw active buying from British institutions. They anticipated strong overseas demand and were particularly watching for the reaction of the Japanese investment community.

Lower mortgage rates which should lower base rates and the decision not to raise excise duties should depress the retail prices index while sterling's buoyancy should also help stifle inflationary pressures.

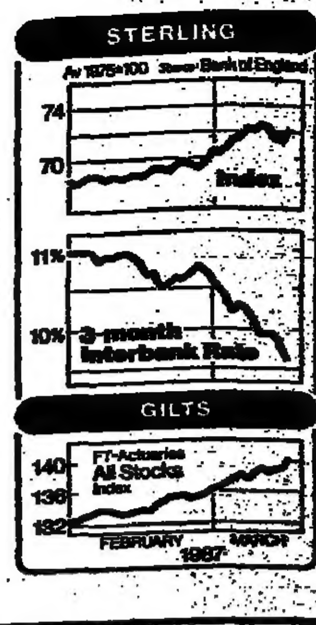
Share prices moved to new peaks late yesterday although trading was light in the hour or so left after the Chancellor had finished speaking and there was some profit-taking at the very end of the day.

The equity market's more considered response will come today and is likely to hinge largely on whether there is an early cut in base rates.

Most leading stocks ended strongly, with oils and consumer industry issues responding particularly positively. Brewers were helped by the decision to leave excise duties alone.

The FT-SE 100 index, 16 points up when the Chancellor started his speech, surged ahead to register a 29.2 gain at its best level. Profit-taking then reduced this gain to 14.5 for a finish of 2,006.3.

Plans to extend the trading session by keeping the stock exchange's Seaq screens active until 7.00pm foundered when neither market makers nor customers showed any inclination to continue trading after normal hours. Seaq officials were forced to announce that trading would end at 6.30pm.



EUROPE

Rate cuts give Milan a boost

ITALY resisted the softer trend on the European bourses yesterday by deriving further encouragement from the latest cut in bank prime rates.

Milan was actively higher throughout the day and sharp gains were also registered in after bourse trading.

Renewed foreign demand was noted although local support centred on covering operations and stemmed from an improvement in the political climate.

Fiat was marked sharply higher on the prospects of a bank-sponsored stock/bond swap. The diversified transport group rose a further L210 to L12,650.

Buitoni in foods advanced L410 to L8,500 in reaction to its improved profit and dividend figures.

Financials were busy and mixed: Ras added L960 to L60,580, while Mediobanca gave up some of its Monday gain triggered by the appointment of a new chairman. It lost L2,800 to close at L255,000.

Among blue chip industrials Montedison, reversing a series of falls, gained L50 to L2,670 and Olivetti closed L100 ahead at L13,250.

Sentiment was aided by wholesale price index figures which showed a rise of 1.1 per cent in January from December but were nevertheless 1.7 per cent down from the year ago figures.

Frankfurt was unsettled by the easier dollar and speculation, triggered by a German news magazine report, that many chemical and insurance companies will be subjected to heavy litigation over allegedly AIDS-infected blood plasma.

Bayer suffered the most from the reports with a DM 13 decline to DM 292, while Hoechst dropped DM 6.50 to DM 253 after a gas leak at its Frankfurt plant early yesterday. Insurer Allianz dropped DM 56 to DM 1,597.

Among weaker car makers, Daimler retreated DM 18 to DM 913 and VW, entangled in a growing row over currency fraud, gave up DM 1 to DM 333.

Lufthansa fell DM 7 to DM 178 as the airline revealed a new US service and said that it believed its fare policy was within EEC rules.

Bond prices were narrowly mixed with movements of up to 10 basis points. The Bundesbank bought DM 114.50 worth of paper after selling DM 57.8m on Monday.

Paris turned lower on some position-squaring ahead of the new monthly account and a small rise in domestic short-term interest rates. The improved performance *of two* key economic indicators during February failed to lend any support.

Peugeot led a mixed motor sector with its FFr 14 rise to FFr 1,443, while Carrefour put on the best show among retailers with its FFr 70 advance to FFr 3,880.

Amsterdam remained tied to the fate of the dollar and its impact on internationals. Many foreign investors stayed out of the market yesterday and concentrated their attention, and funds, on London.

Gains were few among internationals: Akzo firmed 60 cents to Fl 142.50 and Philips closed 10 cents up at Fl 50.40; KLM dropped 50 cents to Fl 42.80 and Royal Dutch shed *Fl 3.30 to Fl 235.60.*

Publisher Elsevier edged 50 cents up to Fl 251 ahead of results.

Brussels moved off its high despite news of government spending cuts viewed by many operators as a *sign of determination* to keep the budget under control.

Zurich was mixed as foreign investors held to the sidelines. Ciba-Geigy responded to reports that it was actively researching an Aids treatment. It added SFr 110 to SFr 3,390.

Stockholm was higher on strong demand for Ericsson, up SKr 4 to Skr 257 while Madrid retreated on the news that FECSA, the utility, had formally announced a suspension of its debt repayment.

VW affair casts cloud over Veba sale

By David Marsh and Haig Simonian

THE TIMING of West Germany's biggest ever share sale has been thrown into doubt in the wake of the currency fraud scandal at Volkswagen.

The West German Government was due to sell its 25.6 per cent stake in Veba, the diversified energy conglomerate, later this month. The operation was expected, at the beginning of the year, to raise nearly DM 3bn ($1.63bn).

But since VW announced last Tuesday that it was making a provision for a loss of DM 480m in its 1986 accounts because of a currency fraud. West Germany's Commerzbank share index has fallen from 1,758.5 to 1,692.5 yesterday. The Veba share price, which stood at DM 346 at its peak last year, has dropped another DM 4 to close at DM 260.50 yesterday. This would bring the proceeds from the share sale down to a little over DM 2.5bn.

Mr Rudolf von Bennigsen-Foerder, Veba's chairman, made clear yesterday that the Volkswagen scandal; was affecting the share sale.

He said he could give no date for the flotation because the timing was a matter for the Government and the banking consortium, led by Deutsche Bank, which is managing the issue.

Veba wanted to get the privatisation "behind us," although Mr von Bennigsen did not rule out a delay beyond the end of the month and suggested that those wanting more details would have to "ask the finance ministry."

Clearly disgruntled at the cloud over the flotation, Mr von Bennigsen said he was against any postponement since "a few D-Marks up or down in the (Veba) price" would make no difference to the operation.

The Government has budgeted that it will receive DM 3.3bn this year from selling some, or all, of its stakes in Veba, VW, DSL Bank and the Deutschepfandbriefanstalt.

Exchanges to use Morgan Stanley index

By David Owen in Chicago

MORGAN STANLEY, the Wall Street securities house, has announced agreements allowing two US futures and options exchanges to use its Europe, Australia and Far East stock index (EAFE) as the basis for trading futures contracts and listed options.

The Chicago Mercantile Exchange (CME), the world's second largest futures exchange, will be permitted to market and trade futures and options on futures based on the index, while the Chicago Board Options Exchange (CBOE), the world's largest market for listed options, will be able to offer EAFE-based, cash-settled options.

The EAFE index is a diversified portfolio of 900 stocks representing the stock markets of 16 *different* countries. *Combined* market capitalisation of the companies constituting the index represents over 60 per cent of the aggregate market value of the stock exchanges in these countries.

EAFE-based futures and options "should greatly benefit portfolio managers by allowing them to trade the equivalent of a basket of international indices in a single futures contract," said Mr William Brodsky, president of the CME.

Potential users will probably have to wait several months for EAFE-based derivative products to start trading, while the exchanges wait for regulatory approval.

ASIA

Lure of quick profit lifts Nikkei to fresh high

TOKYO

STRONG BUYING interest returned to Tokyo yesterday, focusing on major steelmakers and other large-capital stocks and driving share prices to a new high, *writes Shigeo Nishiwaki of Jiji Press.*

The Nikkei average gained 99.36 from Monday to 21,514.73. Volume swelled to 1.94bn shares from 1.14bn. Advances outnumbered declines by 451 to 433, with 137 issues unchanged.

Dealers concentrated on large-capital steels, shipbuildings and chemicals to earn quick profits. Institutional investors, businesses and individuals jumped on the bandwagon.

Leading the upswing was Nippon Steel, which topped the active list with 419.12m shares changing hands and rose Y17 to a record Y322, eclipsing the previous peak of Y318 set on March 11.

Kawasaki Steel gained Y10 to Y255, Sumitomo Metal Industries Y12 to Y255, Ishikawajima-Harima Heavy Industries Y27 to Y539 and Nippon Kokan Y23 to Y280.

Kawasaki was the second-busiest issue with 218.54m shares traded, Sumitomo third with 117.21m, Ishikawajima-Harima fourth with 78.68m and Nippon Kokan sixth with 63.49m.

Volume of the 10 most active stocks accounted for 58.8 per cent of the total.

Some budget-influenced stocks performed strongly, supported by the Government's plan for carrying out public works aimed at buoying up the Japanese economy. Taisei Corp rose Y40 to Y1,070 and Ohbayashi Corp Y20 to Y1,090.

All Nippon Airways (ANA) climbed Y90 to Y2,130, helped by the deregulation of the aviation business. ANA also drew popularity as it is undervalued compared with Japan *Air Lines,* which is to be completely privatised this autumn.

Tokyo Corp jumped Y110 to Y1,980. It is the biggest shareholder in Toa Domestic Airlines, which is scheduled to go public on Wednesday.

Blue chips were depressed by the yen's firmness against the dollar. NEC shed Y50 to Y1,870, Matsushita Electric Industrial Y20 to Y1,840 and Fuji Photo Film Y70 to Y3,490.

Bond prices turned slightly lower *in reaction to the previous day's* sharp rise.

The yield on the benchmark 5.1 per cent government bond, falling due in June 1996, rose to 4.565 per cent from Monday's 4.555 per cent.

AUSTRALIA

THE GOLD INDEX again moved higher in Sydney after the overnight rise in bullion prices but the rest of the market was little changed and industrial stocks continued weaker.

The narrower February current account deficit had little effect and the All Ordinaries index closed up 0.2 at 1,629.4.

The gold index climbed 34 points to 2,254.5.

HONG KONG

SELLING persisted steadily for a fourth session in Hong Kong, taking the Hang Seng index down a further 40.29 to 2,629.28. The index has fallen nearly 102 points in the past week and by more than 10 per cent since it peaked at 2,939.85 on March 3.

The Hong Kong index was down 23 at 1,685.31.

Hongkong Bank remained under pressure from its HK$3.3bn rights issue, which US fund managers are reported to be reluctant to take up. The bank lost 15 cents to HK$9.25.

Utilities and properties were again weaker, with Cheung Kong down HK$1.00 to HK$41.25, Hongkong Land easing 10 cents to HK$7.35 and China Light and Power off 40 cents at HK$20.60.

SINGAPORE

THE DOWNTURN continued into a fifth consecutive trading day in Singapore as profit-taking in the wake of the recent record run took the Straits Times industrial index 22.38 lower to 1,011.07.

Volume remained moderate as many investors stayed out of a market widely seen as overbought.

SOUTH AFRICA

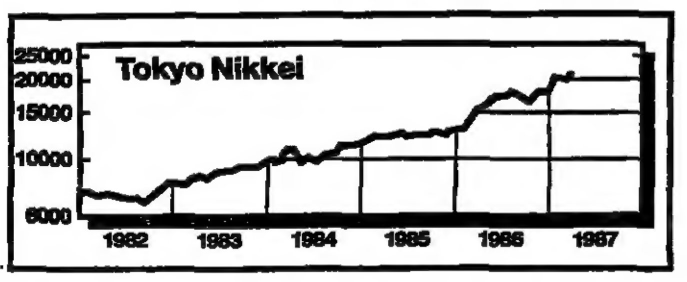
THE STRENGTH of the financial rand weighed down on Johannesburg, offsetting the firmer bullion price to push gold and mining shares generally lower.

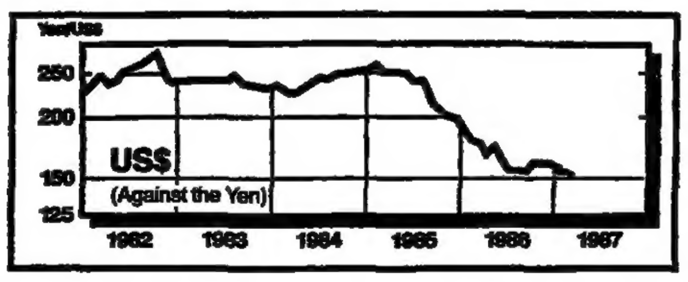
Vaal Reefs fell R7 to R338 and Driefontein 70 cents to R86.50, while easier mining financials included Gencor, down R1.10 to R57.90, and Anglo American, off 75 cents at R57.

Samanco, a ferroalloy and base metal issue, moved up 5 cents to R7.95, apparently on buying by a large foreign investor.

Industrials were mixed but demand remained fair and the index rose 19 to a record 1,676.

KEY MARKET MONITORS





STOCK MARKET INDICES

	Mar 17	Previous	Year ago
NEW YORK			
DJ Industrials	2,284.80	2,248.44	1,776.82
DJ Transport	939.35	930.47	814.10
DJ Utilities	217.12	215.80	186.65
S&P Comp.	292.47	288.23	234.67
LONDON FT			
Ord	1,585.9	1,576.6	1,374.6
SE 100	2,006.3	1,991.8	1,622.6
A All-share	1,001.08	994.35	798.71
A 500	1,118.31	1,109.60	875.58
Gold mines	341.4	338.3	317.4
A Long gilt	9.02	9.20	9.59
TOKYO			
Nikkei	21514.73	21415.37	14655.5
Tokyo SE	1857.75	1840.46	1168.91
AUSTRALIA			
All Ord.	1,629.4	1,629.2	1,112.2
Metals & Mins.	805.7	800.4	525.4
AUSTRIA			
Credit Aktien	203.00	—	235.60
BELGIAN SE	4,461.04	4,505.24	3,352.27
CANADA			
Toronto			
Met.& Mins.	2,584.5	2,526.1	2,333.0
Composite	3,739.0	3,672.9	2,957.0
Montreal			
Portfolio	1,859.94	1,825.53	1,511.61
DENMARK SE	—	200.44	236.42
FRANCE			
CAC Gen	438.81	439.20	315.8
Ind. Tendance	111.90	111.90	76.8
WEST GERMANY			
FAZ-Aktien	558.69	562.45	694.21
Commerzbank	1,692.50	1,701.90	2,091.9
HONG KONG Hang Seng	2,629.28	2,669.57	1,598.49
ITALY Banca Comm.	711.41	697.17	659.01
NETHERLANDS ANP CBS			
Gen	274.00	274.10	280.6
Ind	255.20	255.10	248.5
NORWAY Oslo SE	409.25	410.13	344.05
SINGAPORE Straits Times	1,011.07	1,033.45	570.56
SOUTH AFRICA JSE			
Golds	—	1,829.0	1,220.7
Industrials	—	1,657.0	1,161.6
SPAIN Madrid SE	231.52	234.16	130.72
SWEDEN J & P	2,507.27	2,508.89	1,960.72
SWITZERLAND Swiss Bank Ind	587.80	588.70	583.0
WORLD MS Cap. Int'l March 16	420.8	421.0	298.8

COMMODITIES (London)

	March 17	Prev
Silver (spot)	350.65p	352.35p
Copper (cash)	£906.50	£916.50
Coffee (May)	£1,260.00	£1,265.00
Oil (Brent)	$18.375	$18.05

GOLD ($/oz)

	March 17	Prev
London	$405.0	$405.75
Zürich	$406.50	$405.75
Paris (fixing)	$408.44	$406.72
Luxembourg	$406.30	$405.00
New York (April)	$406.80	$406.60

CURRENCIES (London)

	US DOLLAR Mar 17	US DOLLAR Previous	STERLING Mar 17	STERLING Previous
$	–	–	1.5990	1.5840
DM	1.8395	1.8375	2.94	2.91
Yen	151.95	151.60	243.0	240.0
FFr	6.12	6.1175	9.785	9.69
SFr	1.5385	1.5375	2.46	2.435
Fl	2.0680	2.0760	3.305	3.2875
Lira	1,306.0	1,305.50	2,088.0	2,068.0
BFr	38.0	38.05	60.75	60.25
C$	1.3130	1.3160	2.1020	2.0825

INTEREST RATES

	Mar 17	Prev
Euro-currencies (3-month offered rate)		
£	9¹¹⁄₁₆	9¹⁵⁄₁₆
SFr	4⁷⁄₁₆	4⅜
DM	4⅜	4⅜
FFr	8⅛	8³⁄₁₆
FT London Interbank fixing (offered rate)		
3-month US$	6⅞	6⅞
6-month US$	6⅞	6⅞
US Fed Funds	6⁵⁄₁₆ *	6
US 3-month CDs	6.05 *	6.375
US 3-month T-bills	5.585*	5.81

FINANCIAL FUTURES

CHICAGO	Latest	High	Low	Prev
US Treasury Bonds (CBT) 8% 32nds of 100%				
Mar 17				
March	101–30	102–00	101–11	101–21
US Treasury Bills (IMM) $1m points of 100%				
June	94.50	94.52	94.45	94.48
Certificates of Deposit (IMM) $1m points of 100%				
March	–	–	–	93.97
LONDON				
Three-month Eurodollar $1m points of 100%				
June	93.56	93.57	93.53	93.55
20-year Notional Gilt £50,000 32nds of 100%				
March	124–08	123–05	123–05	123–17

US BONDS

Treasury

	March 17 Price	March 17 Yield	Prev Price	Prev Yield
6⅞ 1989	99²⁹⁄₃₂	6.384	99²⁵⁄₃₂	6.401
7¼ 1993	98²¹⁄₃₂	7.006	98¹⁹⁄₃₂	7.012
7¼ 1996	100¹⁹⁄₃₂	7.191	100¹⁵⁄₃₂	7.20
7½ 2016	99²⁵⁄₃₂	7.505	99¹⁹⁄₃₂	7.516

Source: Harris Trust Savings Bank

Treasury Index

Maturity (years)	Return index March 17	Day's change	Yield	Day's change
1–30	163.17	+0.23	6.98	–0.03
1–10	154.63	+0.12	6.66	–0.03
1– 3	144.03	+0.07	6.37	–0.03
3– 5	157.57	+0.17	6.71	–0.03
15–30	193.58	+0.59	7.78	–0.03

Source: Merrill Lynch

Corporate

	March 17 Price	March 17 Yield	Prev Price	Prev Yield
AT & T 3⅞ July 1990	93.77	6.00	93.607	6.05
SCBT South Central 10⅞ Jan 1993	105.25	9.70	105.00	9.75
Phibro Sal 8 April 1996	100.00	8.00	100.00	8.00
TRW 8⅞ March 1996	103.50	8.19	103.50	8.19
Arco 9⅞ March 2016	113.00	8.64	113.25	8.62
General Motors 8⅝ April 2016	94.00	8.74	94.75	8.82
Citicorp 9⅝ March 2016	101.00	9.27	100.75	9.33

Source: Salomon Brothers

* Latest available figures